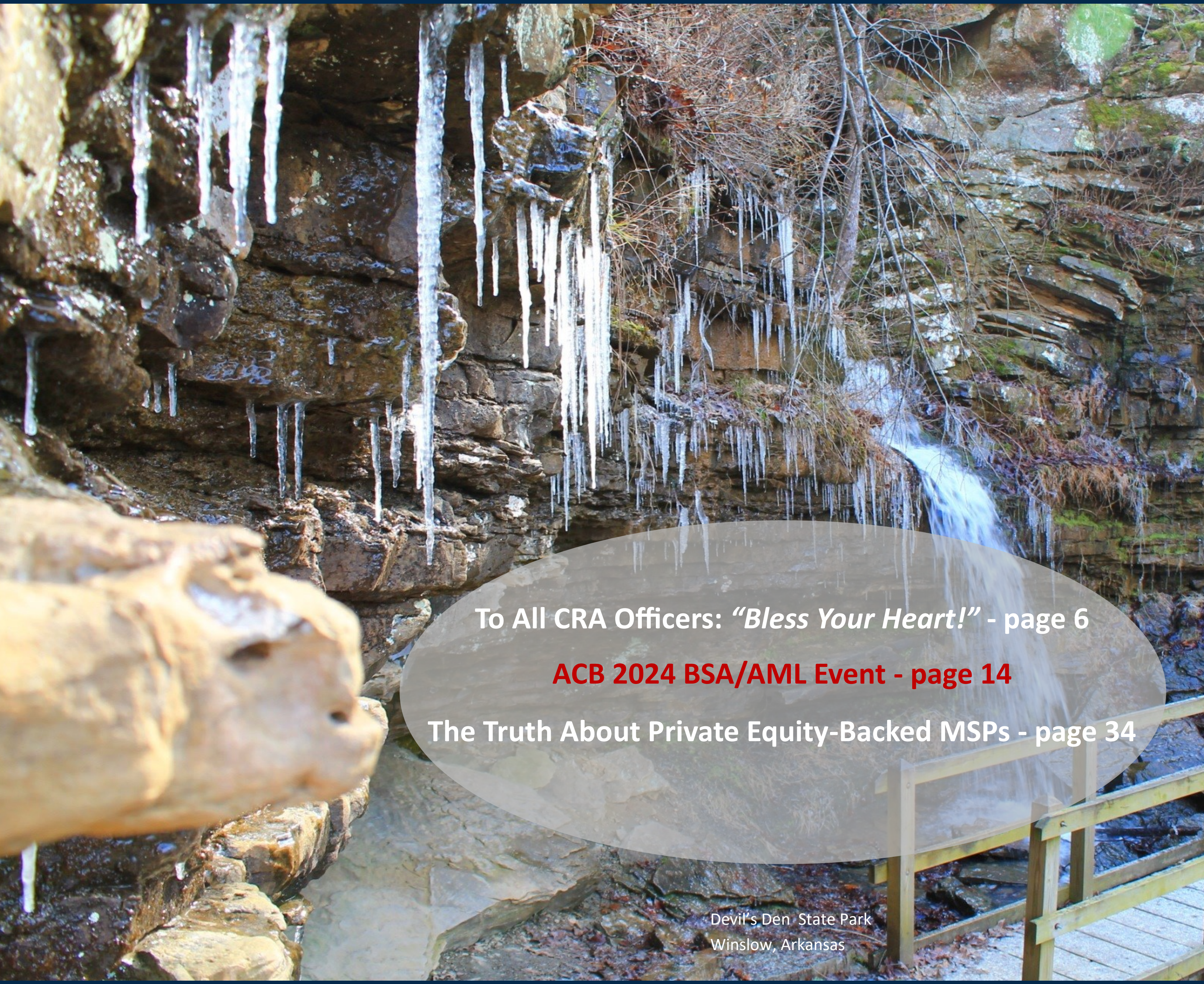
# ARKANSAS COMMUNITY BANKER

Winter 2024

*One Vision, One Mission. Community Banks.*



To All CRA Officers: *"Bless Your Heart!"* - page 6

ACB 2024 BSA/AML Event - page 14

The Truth About Private Equity-Backed MSPs - page 34

Devil's Den State Park
Winslow, Arkansas

*OFFICIAL PUBLICATION of the*
ARKANSAS COMMUNITY BANKERS ASSOCIATION

# ARKANSAS COMMUNITY BANKER

Winter 2024

# Inside


**6** To All CRA Officers: *"Bless Your Heart!"*

BY STEFFANI JENKINS

**9** Uncovering Hidden Costs

BY BEN FRANCE

**13** Credit unions kick-off 2024

BY LAUREN SEAY


**21** Developing a Business Case for Cybersecurity

BY JASON CORDER

**24** What stops community banks from improving their cybersecurity plan?

BY AMY RADUE

**34** Private Equity-Backed MSPs

BY THOMAS DOUGLAS



## Specialty Interests


**16** BASIS POINTS
Give credit where it's due

BY JIM REBER

**27** FLOURISH
Continuing the climb
*In advocacy, education and innovation, we are working alongside you to power your potential ...*

BY REBECA ROMERO-RAINEY

**30** FROM THE BOARD ROOM
Survive till `25!

BY PHILIP SMITH & CHARLES PLUNKETT

**37** AD INDEX OF *PREFERRED SOLUTIONS PROVIDERS* & ASSOCIATE MEMBERS



ICBA Education


**ARKANSAS COMMUNITY BANKERS ASSOCIATION**
3801 Woodland Heights Road, Suite 125-G
Little Rock, Arkansas 72212
www.arcommunitybankers.com
info@arcommunitybankers.com
501-246-4975

**BARRET**
**SCHOOL OF BANKING**
*Paul W. Barret, Jr. School of Banking • Memphis, TN*

# What makes us **the best** Graduate Banking Education value found **anywhere?**

## Tuition

Barret's $1,995 tuition is the **lowest** in the industry, thanks to a large endowment that allows for over 60% tuition subsidies for all students.

Approximately 1/3 of the cost of other banking schools at LSU, SMU, Wisconsin, and Colorado.

## Education

Outstanding and innovative curriculum.

**ACB and ICBA Endorsed.**

Superb faculty including nationally known speakers in the industry.

## Lecture Series

Featuring nationally distinguished speakers:

- Dr. Robert Gates
- Coach Mike Krzyzewski
- Coach Tony Dungy
- Newt Gingrich
- Coach Tony LaRussa
- Kat Cole
- Daymond John
- Fred Smith
- Kurt Warner

## Convenience

One-week resident session means employees spend less time away from the job and family.

## Experience

More than 50 years in existence.

Attendees come to Barret from 40+ states.

Visit us at **barretbanking.org** for more info, and to fill out your online application today!

Make sure to listen to our Main Street Banking Podcast!

## Barret Graduate School Curriculum in Brief

One week per year for three years • 130+ hours of core classroom study • Nine on-campus case studies• Eight home study problems.
Over the three year graduate program, participants will have access to 200+ hours of training.

### Year One

Financial Institutions & Markets
Boosting Bank Profitability* **
Financial Statements***
Human Behavior* **
Developing a Sales Culture
Mktg & Business Dvp.***
Compliance Management
Operations Management
Technology, Payments, & Cybersecurity

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
Bank Simulation**
Leadership Development
Digital Marketing**
Executive Learning Lab
Bank Management

Total Hours: 44

**Case Study

***An additional 25+ hours of electives are available to all participants each year.

ACB Preferred Solutions Provider

**Barret's Annual Graduate School program: May 19 - 24, 2024**

**Barret School of Banking** • 650 East Parkway South • Memphis, TN 38104 • (901) 321-4000 • Fax: (901) 321-4099 • barret@barretbanking.org

# To All CRA Officers: *Bless Your Heart!*

*BY STEFFANI JENKINS*

Have you ever been told "Bless your heart!" after talking about a challenging situation? Being from the South, this is what comes to mind when a banker tells me they've just been gifted with the title of "CRA Officer" along with all their other responsibilities. CRA is going to become even more challenging with the implementation of the modernization of the CRA; therefore, learning the basics of CRA is critical.

If your bank is a HMDA and/or small business reporter, the first thing your examiner will typically do at the onset of a CRA exam is to perform a data integrity review of your HMDA LAR and your small business loans. If your error percentage is above 5%, this sets the stage for the CRA exam and…bless your heart! It's probably not going to go well. Review every loan to ensure that the loan is coded correctly and that all reportable fields for CRA match the application or other supporting documentation. Depending on the volume of loans, this could be a full-time job, but the results are worth the money and effort to ensure your data is accurate.

Most intermediate-small and large banks are required to report their Community Development activities for consideration by their regulator at exam time. The big question is always "How much is enough?" Your last Performance Evaluation ("PE") should be a good indicator. If they used words like "poor" or "adequate", you need to step up your game. Set goals for each assessment area based on your last PE as well as your deposit market share in each assessment area. Review your peer bank PEs as well. This is a good indicator of opportunity for the market, and it can give ideas for your own CRA program.

The partnerships we create can go a long way in alleviating the stress of finding CRA qualified activities or it can hinder them. At the beginning of each year, create a road map of where you want that year to lead you, based on a needs analysis and assessment area analysis. Next, find the best of the best non-profit organizations that can help you implement. Examiners like "tri-fecta" relationships, one where the bank has made a loan, provided a service, and donated to the CRA qualified organization. This denotes a true "partnership".

Document, document, and document! That's a critical piece of CRA that many either don't do or aren't doing enough. Your community development activities must be documented to not only prove CRA qualification but also prove that an impact was made by the activity. If you can't describe the impact, then you probably aren't going to impress the examiner with the activity. Often, the impact can be demonstrated through photos. If a financial education class is taught, take photos of the event. This not only shows the number of participants but also demonstrates their attention to the teacher and the topic.

Steffani Jenkins serves as the CRA Liaison for CRA Partners, an ACB *Preferred Services Provider.* She may be contacted by email.

Examiners are going to review each of your assessment areas to determine the opportunity to provide CRA qualified activities. They make this determination via many factors that include demographics, competition, economic conditions, peers, and your bank's product offerings. Give the examiners the answer to these questions at the beginning of the exam. For those areas where it may appear the bank is deficient, discuss the deficiencies and what steps the bank has taken to mitigate them. This is all included in the CRA "Self-Assessment" ("SA"). The SA gives the bank an opportunity to talk about their successes as well as explain the reason for deficiencies. Include your market leaders' input in the SA. If a business closes in a small town and it eliminates jobs for low-and-moderate income people, then this is going to affect the bank's ability to lend. Your market leaders can relay this information to you to be documented in the SA. If you aren't making mortgage loans to low-income people, provide financial education in that market and document that in the SA. This is your opportunity to brag on your successes and well as any perceived deficiencies and, as the examiners always say, "Tell your story."

Next, provide training on CRA for employees. I recently heard a CRA Officer say they only provide an annual computer-based training. This is important but it's not enough. In-person training allows you to have the full attention of your audience and they are more likely to ask questions. Include branch managers, Presidents, and commercial lenders. All these people are integral to a successful CRA program. Also, provide an annual training for your Board of Directors. They need to understand CRA at a high level and know how the bank is performing related to CRA. Document all CRA training efforts and provide this information to the examiner at exam time.

Lastly, don't wait until the exam to get to know your examiners. Develop a relationship with them throughout the exam period. Suggest that you meet with them on a quarterly basis to discuss your CRA program, deficiencies and new product or program considerations. Also, get to know the regulator's Public Affairs person for your area. They can also assist with strengthening your program.

Though CRA is a federal requirement for banks, it can also have a positive impact on our communities. When the job seems never-ending, think about the lives you impact and the areas that are improved by your efforts. The "bless your heart" moments won't seem quite so bad, and your bank will benefit both in reputation and in exam ratings.

6BCC®

SIX BRIDGES CAPITAL CORPORATION
IN PARTNERSHIP WITH ARKANSAS CAPITAL CORPORATION

ARKANSAS CAPITAL
EMPOWERING ENTREPRENEURS

Preferred Solutions Provider

## *Our Latest Fixed for Term Rates**

| 6.316% | 6.432% | 7.213% |
|---|---|---|
| 25 YR | 20 YR | 10 YR |

- Up to 90% financing (50% Lender First Mortgage and up to 40% SBA 504 Funding)
- Below market, fixed interest rates (SBA Portion) Up to 25 year amortization
- Large Project Sizes - Up to $15mm- SBA portion up to $5.5 million
- First mortgage rates and terms set by participating lender
- Owner-occupied commercial real estate and long term fixed assets
- Refinincing of high-interest variable rate loans

*Full term effective interest rate is inclusive of fees to the CDC and SBA. Rate is reflective of the SBA/CDC portion of the project only.

**Six Bridges Capital CDC has been serving Arkansas lenders and borrowers for over 30 years!**

**Trust your only Arkansas based CDC and contact me today!**


# Craig Calafati

Executive Vice President, Lending

Email: ccalafati@arcapital.com
Office: 501-374-9247
Cell: 501-295-6260


www.arcapital.com

smiley
TECHNOLOGIES

# Uncovering Hidden Costs:

## Choosing Core Banking Providers Beyond Features

READ MORE!

In today's dynamic banking landscape, where customer expectations are constantly evolving, the choice of a core banking provider is a pivotal decision for financial institutions. The core system serves as the backbone of your operations, impacting everything from customer service to your institution's bottom line.

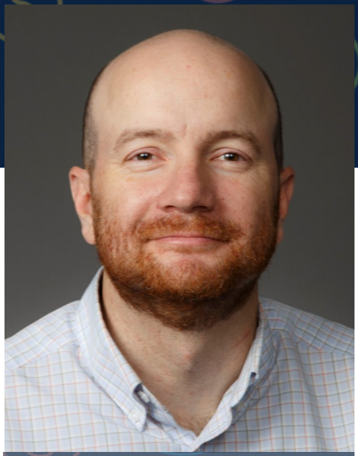
However, when evaluating core banking vendors, it's crucial to remember that not all providers are created equal. It's never an apples-to-apples comparison so details such as support structure, pricing, and development timelines, should be carefully examined.

**The Hidden Costs of Underutilized Software**

As the banking industry embraces digital transformation, the demand for cutting-edge software solutions is greater than ever. Yet, a surprising trend has emerged: organizations will overspend $750 million on unused IT software features this year alone, according to CIO Magazine, citing analyst firm Gartner. Another report by SaaS management platform Zylo found that companies waste more than $17 million on unused or redundant software applications each year.

But it's not just in the broader IT landscape that this waste exists. There are specific costs related to underutilized core banking software and financial institutions should be aware that while some of these costs are hidden, they can quickly add up.

1. Licensing Fees: Core banking software licenses can be expensive, and financial institutions often pay for user licenses or features that are not fully utilized. This represents a direct cost associated with underutilization.
2. Missed Revenue Opportunities: Underutilizing solutions for cross-selling and upselling financial products can result in missed opportunities to generate revenue through these features.
3. Increased Operational Costs: Inefficient use of core banking software can lead to manual workarounds and increased operational costs.
4. Maintenance and Support: Financial institutions typically pay maintenance and support fees for their core banking software. If the software is not fully utilized, these fees may not be justified.
5. Compliance Costs: Non-compliance with regulatory requirements due to underutilized features can lead to fines and legal costs. Core banking systems often include features for compliance reporting and monitoring that, when unused, can result in compliance risks.
6. Training Expenses: If employees are not trained to use all aspects of the core banking software, additional training costs may be required to ensure effective utilization. Some vendors even charge for training videos.
7. Customer Service and Satisfaction: Underutilization can affect the quality of service provided to customers. This can result in customer dissatisfaction and potentially lead to customer attrition, which has its own associated costs.
8. Data Management Costs: Core banking systems often have tools for data analytics and reporting. When these tools are underutilized, financial institutions may miss opportunities for data-driven decision-making, potentially impacting the institution's competitiveness and bottom line.
9. Security Risks: Incomplete use of security features within the core banking software can leave the institution vulnerable to cybersecurity threats, potentially resulting in data breaches and associated costs.
10. Scalability Challenges: As the institution grows, underutilized core banking software may struggle to scale efficiently, requiring additional investments in system upgrades or replacements.



*Ben France is the Director of Business Development for Smiley Technologies, Inc., an ACB Associate Member. Ben may be reached at bfrance@sibanking.com*

**Choose Wisely: Your Core Banking Partner Matters**

Banks often underestimate the long-term impact of their core provider choice and sometimes fall for unnecessary bells and whistles that either aren't appropriate for their institution, or cost more than they provide any real value. Each core provider brings its unique strengths and weaknesses to the table. To make an informed decision, banking executives must look beyond the surface and consider several crucial dimensions:

- Support Structure – Beyond the bells and whistles of software features, a responsive and dedicated support structure is the unsung hero of your core banking ecosystem. When issues arise or questions need answers, having a reliable support team can mean the difference between seamless operations and costly disruptions. Ensure your provider offers a responsive support structure, including live customer service representatives who can assist during business hours. It's a simple but critical factor that can save your institution time, money, and headaches down the road.

- Pricing That Fits Your Strategy – While the initial cost of a core banking system is a significant consideration, it's essential to look beyond the price tag. Different vendors offer various pricing models, including licensing fees, maintenance costs, and potential add-on expenses. It's not uncommon for some providers to portray cost savings that may not be genuine savings in the long run. What's the total cost of ownership? Some providers may offer a basic package with add-on features for an extra cost. While this can provide flexibility, it's crucial to evaluate which add-ons your institution genuinely needs and whether these costs align with your growth and profitability strategy.

Development Timelines – In a rapidly changing financial landscape, adaptability is key. Consider the development timelines of your core banking provider. Are they agile enough to respond to industry trends and regulatory changes promptly? Frequent updates and enhancements ensure your institution remains competitive and compliant. The ability to quickly adopt new technologies and features can be a game-changer.

In the world of core banking solutions, one size does not fit all. Having a core partner that understands your institution's unique needs and growth trajectory can be the differentiator that propels your bank to new heights of excellence. Please let me know if you have any questions or would like to speak more about this. Happy New Year!

# Superior Executive Benefits, Outstanding Client Service

For clients across Arkansas, our team offers BOLI, executive benefits, nonqualified plans and a whole lot more.

We're a powerhouse with the person-to-person expertise you deserve backed by the breadth and scale to meet your needs. As the nation's #2 retirement plan aggregator firm according to Investment News and the #6 largest benefits broker by global revenue as ranked by Business Insurance, we can take care of you every step of the way.

## Keep your key people happy with:

- Bank-owned life insurance, risk assessment, implementation and administration
- Executive and director benefits plans, compensation plans and consulting
- Nonqualified benefit plans

NFP provides employee benefits, property and casualty, retirement, and individual private client solutions through our licensed subsidiaries and affiliates. Our expertise is matched only by our commitment to each client's goals.

COMMERCIAL INSURANCE | CORPORATE BENEFITS | PRIVATE CLIENT SOLUTIONS

**Contact Trey today to see how we can help your bank or business.**

**Harry L. "Trey" Deupree III,**
trey.deupree@nfp.com | 469.252.1038

**7200 Bishop Road, Suite 240**
**Plano, TX 75024**

NFP | EQUIASALLIANCE
BOLI AND BENEFIT ADVISORS
AN NFP COMPANY

Associate Member

Reid Lynch

## First National Bankers Bankshares, Inc.
## Announces Hiring of Reid Lynch for FNBB Capital Markets Division

First National Bankers Bankshares, Inc. has announced the hiring of Reid Lynch to the position of Senior Vice President, FNBB Capital Markets. Mr. Lynch will be covering financial institutions in the state of Arkansas and assisting them with their needs as it relates to the investment portfolio and related services.

"We are thrilled to announce that Reid Lynch has joined our talented and capable team in Arkansas. While Reid's 19 year track record in the Capital Markets business speaks for itself, being a native of Arkansas, he is the ideal candidate to represent First National Bankers Bank in that market.", said Chris Corts, President of FNBB Capital Markets.

Mr. Lynch obtained his Bachelor of Sciences degree from the University of Arkansas at Little Rock in Corporate Finance. He holds the Series 7 and 63 Securities licenses. As an avid golfer, hunter, and fisherman, Mr. Lynch enjoys spending time outdoors in the Natural State.

# Credit unions kick off 2024 with record-breaking bank buys

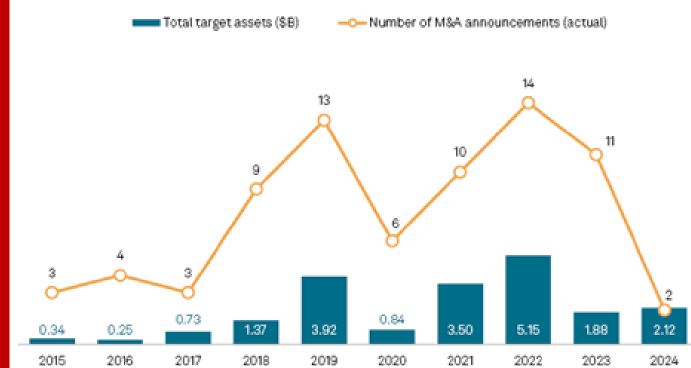

BY LAUREN SEAY

*Lauren leads S&P Global Market Intelligence's banking news and bank regulation reporting. S&P Global Market Intelligence is an ACB Preferred Services Provider.*

Hudson Valley CU kicked off the new year with its acquisition of Catskill Hudson Bancorp Inc. subsidiary Catskill Hudson Bank, marking the first time a New York -based bank was targeted by a credit union and the 10th-largest credit union-bank deal ever, based on target assets. But that deal was quickly overshadowed the next day when Global FCU announced its acquisition of First Financial Northwest Inc. subsidiary First Financial Northwest Bank, breaking multiple records.

With $1.53 billion in assets at Sept. 30, 2023, First Financial Northwest Bank is the largest bank targeted by a credit union ever, and the first bank with more than $1 billion in assets set to be acquired by a credit union. First Financial Northwest Bank is also the first bank with a holding company publicly traded on a major exchange to be the target in an acquisition by a credit union.

**US credit union-bank M&A deals**




Data compiled Jan. 11, 2024.
Analysis limited to whole-bank and franchise deals announced between Jan. 1, 2015, and Jan. 11, 2024, with a US credit union buyer and US bank or thrift target; excludes terminated deals.
Total target assets are as of the most recent quarter-end prior to deal announcement for all deals announced that year.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

**Largest US bank acquisitions by credit unions since 2019**
Ranked by target total assets

| Buyer | Target | Target city, state | Date announced | Total assets ($M)* Target | Total assets ($M)* Buyer |
|---|---|---|---|---|---|
| Global FCU | First Financial Northwest Bank | Renton, WA | 01/11/24 | 1,525.1 | 11,836.4 |
| GreenState CU | First American Bank | Fort Dodge, IA | 06/25/19 | 959.3 | 5,383.6 |
| Summit CU | Commerce State Bank | West Bend, WI | 03/03/22 | 837.1 | 4,830.6 |
| GreenState CU | Oxford Bank & Trust | Oak Brook, IL | 05/25/21 | 759.4 | 7,474.8 |
| Orion FCU | Financial Federal Bank | Memphis, TN | 08/11/21 | 751.2 | 1,022.2 |
| MIDFLORIDA CU | Community Bank and Trust of Florida | Ocala, FL | 05/03/19 | 733.3 | 3,486.9 |
| DFCU Financial | First Citrus Bancorp. Inc. | Tampa, FL | 05/12/22 | 689.3 | 6,404.0 |
| Georgia's Own CU | Vinings Bank | Smyrna, GA | 02/21/22 | 685.6 | 3,419.4 |
| Lake Michigan CU | Pilot Bancshares Inc. | Tampa, FL | 06/16/21 | 656.0 | 9,993.3 |
| Hudson Valley CU | Catskill Hudson Bank | Kingston, NY | 01/10/24 | 593.0 | 6,854.9 |
| Arizona FCU | Horizon Community Bank | Lake Havasu City, AZ | 03/10/22 | 539.5 | 2,779.9 |
| FAIRWINDS CU | Citizens Bank of Florida | Oviedo, FL | 08/19/21 | 491.7 | 3,773.3 |
| Dort Financial CU | Flagler Bank | West Palm Beach, FL | 12/13/22 | 489.3 | 1,428.2 |
| Robins Financial CU | Persons Banking Co. | Forsyth, GA | 02/28/22 | 429.5 | 3,880.1 |
| GreenState CU | Midwest Community Bank | Freeport, IL | 10/25/21 | 367.1 | 7,971.9 |

Pending deal Completed deal

Data compiled Jan. 11, 2024.
Analysis limited to the largest whole-bank and franchise deals by target total assets announced between Jan. 1, 2019, and Jan. 11, 2024, with a US credit union buyer and US bank or thrift target.
* Total assets as of the most recent quarter-end before deal announcement.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

Moreover, with $11.84 billion in assets at the end of the third quarter of 2023, Global FCU is the largest credit union to strike a bank deal ever. Following the acquisition, the credit union will have more than $13.36 billion in assets, based on S&P Global Market Intelligence data as of the third quarter of 2023.

With the sheer size of the two bank targets involved in credit union deals announced so far this year, 2024 has already surpassed last year's total target assets with just two deal announcements.

Global FCU agreed to acquire substantially all assets and assume substantially all liabilities of First Financial Northwest Bank for $231.2 million in cash, subject to certain adjustments. First Financial Northwest and First Financial Northwest Bank will wind down and dissolve after the purchase and assumption transaction, and First Financial Northwest shareholders are expected to receive about $23.18 to $23.75 per share upon liquidation. In comparison, First Financial Northwest's closing price before the deal was announced was $13.68.

**Most expensive US bank acquisitions by credit unions since 2019**
Ranked by announced deal value as a proportion of tangible common equity

| Buyer | Target | Target city, state | Date announced | At announcement Deal value/ TCE (%) | At announcement Deal value ($M) |
|---|---|---|---|---|---|
| DFCU Financial | First Citrus Bancorp. Inc. | Tampa, FL | 05/12/22 | 210.6 | 105.0 |
| Arizona FCU | Horizon Community Bank | Lake Havasu City, AZ | 03/10/22 | 210.4 | 91.4 |
| Dupaco Community CU | Home Savings Bank | Madison, WI | 09/30/21 | 197.5 | 36.2 |
| FAIRWINDS CU | Friends Bank | New Smyrna Beach, FL | 02/19/19 | 193.3 | 20.0 |
| Lake Michigan CU | Pilot Bancshares Inc. | Tampa, FL | 06/16/21 | 187.0 | 99.9 |
| Tinker FCU | Substantially all of the assets and operations of Prime Bank | Edmond, OK | 04/30/20 | 180.1 | 68.0 |
| Arizona FCU | Pinnacle Bank | Scottsdale, AZ | 06/03/19 | 168.0 | 44.0 |
| Indiana Members CU | Commerce Bank | Evansville, IN | 08/13/19 | 156.5 | 34.7 |
| Global FCU | First Financial Northwest Bank | Renton, WA | 01/11/24 | 156.4 | 231.2 |
| Alabama CU | Security FSB | Jasper, AL | 08/05/21 | 151.5 | 7.0 |
| **US bank deals median since 2019** | | | | **156.4** | |

Pending deal Completed deal

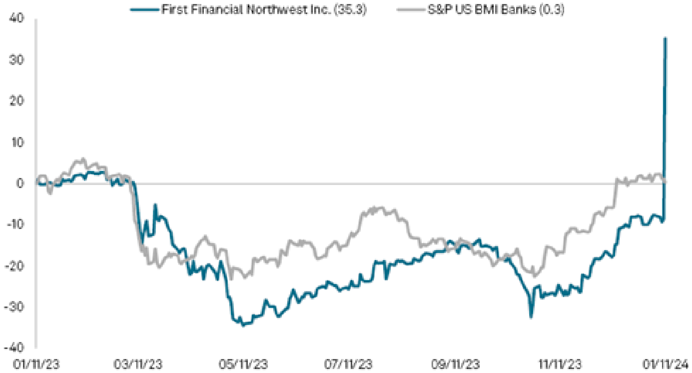
Data compiled Jan. 11, 2024.
Deal value/TCE = deal value as a percentage of tangible common equity acquired; derived from per-share values when all ratio components are available.
Analysis limited to the largest whole-bank deals by deal value to tangible common equity announced between Jan. 1, 2019, and Jan. 11, 2024, with a US credit union buyer and US bank or thrift target; excludes terminated deals and deals where deal value was not available.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

Investors applauded the deal, sending First Financial Northwest's stock price up 48% on the day of the announcement.

Catskill Hudson also received a hefty premium in its transaction. Hudson Valley CU will pay $40.50 for each share of the company, a 119% premium to its $18.50 closing price the day before announcement.

The Street also liked the Catskill Hudson deal, with the company's shares closing up 103% the day of announcement.

**First Financial Northwest 1-year price change (%)**

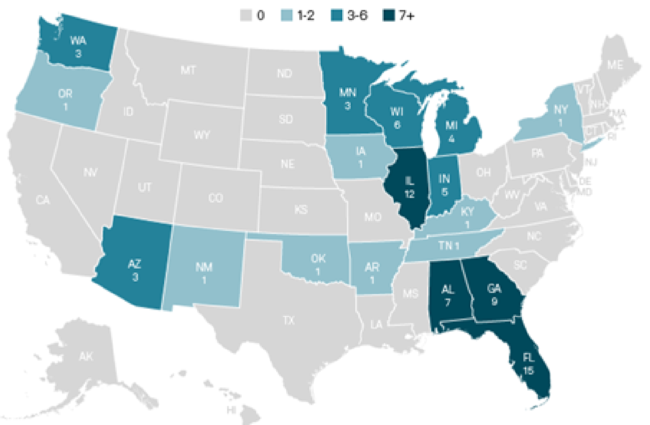



Data compiled Jan. 11, 2024.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.

### Expanding to the Empire State

Both deals mark geographic expansion for credit union-bank deals, which have been largely concentrated in the Southeast and Midwest. Catskill Hudson Bank is the first New York-based bank to be targeted by a credit union, while First Financial Northwest Bank is the third Washington-based bank to be scooped up by a credit union.

**US bank M&A targets with credit union buyers by state since 2015**




Data compiled Jan. 11, 2024.
Analysis limited to whole-bank and franchise deals announced between Jan. 1, 2015, and Jan. 11, 2024, with a US credit union buyer and US bank or thrift target; excludes terminated deals.
Data shown is based on target bank headquarters.
Source: S&P Global Market Intelligence.
© 2024 S&P Global.


– **Access the S&P Capital IQ Pro M&A summary page for US financial institutions.**
– **Access a list of pending and completed M&A deals announced since Jan. 1, 2013.**
– **Read more M&A news.**
– **Please click here if you would like to participate in the 2024 US Bank Outlook Survey.**

# ACB BSA-AML Conference of 2024
# Live in Little Rock
# March 5, 2024


## Agenda and Register

# Give credit where it's due

## Secondary market for whole loans is deep and active.

BY JIM REBER

Anecdotally, and empirically, community bank lending has been relatively productive during this multi-year rate cycle. Many conversations I've had with bankers in all regions of the country sound alike: Loan demand has been healthy, and, even better, credit quality has held up very well even though rates hit a 15-year high toward the end of the year. It sure seems like the industry learned its lessons from the last big downturn just prior to the Great Recession.

Through September, lending activity by community banks had improved about 5% year-over-year and reserves had increased only about half as much. Virtually all loan sectors showed growth, especially consumer loans.

The resilience of the domestic economy has been on display through the appetite for credit, although the aggregate rate hikes may be finally taking their toll. The Federal Reserve's quarterly senior loan officer survey released in October indicated tightening credit standards; higher borrowing spreads; and declining demand for C&I, commercial and residential mortgages, and consumer loans. That pretty much runs the gamut.

### Shakeout coming?

As 2024 gets underway, the lending market is perhaps at a crossroads. To be sure, loan demand is never uniform across the country, and various regions could see differing levels of borrower health and availability of credit. It's been well documented that mortgage rates are more than double the average homeowner's outstanding cost of borrowing, which was around 3.70% late in 2023. It may therefore be time to revisit the robust secondary market for performing, high-quality, non-*conforming* loans.

The conversation with a potential seller of whole loans often begins with a concentration issue. Perhaps a bank's portfolio has too much longer-duration fixed rate credits. Or maybe it's exceeding policy limits as it relates to sector weight in consumers or commercial real estate. Or possibly, a given loan production office has created too many loans in a given geographical area. If so, analysts can help your team identify saleable blocks of your loan portfolio and estimates of secondary market prices. It's also possible to negotiate the servicing of these blocks as either retained or released by the seller.

### Two-way street

At the same time, there are all sorts of depository institutions that are looking to add loans. The root of their inquiries is that the desired mix of volume and quality can't be filled internally. Again, it's possible that concentrations are part of the dialog, and perhaps a given buyer is looking to add to a sector (for example, residential mortgages) where there is little opportunity in the local footprint.

*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.*

The matching up of sellers' supply and buyers' demand is what makes for the deep secondary market, and middlemen such as ICBA Securities' exclusive broker Stifel can act as agents to connect the parties. These agents can assist in arriving at fair values for various loan blocks based on empirical data such FICO scores, risk-free rates, average lives and collateral. They also should have yield spread information on other, similarly structured recent whole loan transactions. Not least, they can assist with the sharing of information on the potential purchase/sale of given loans, including a sampling of loan files for underwriting and due diligence.

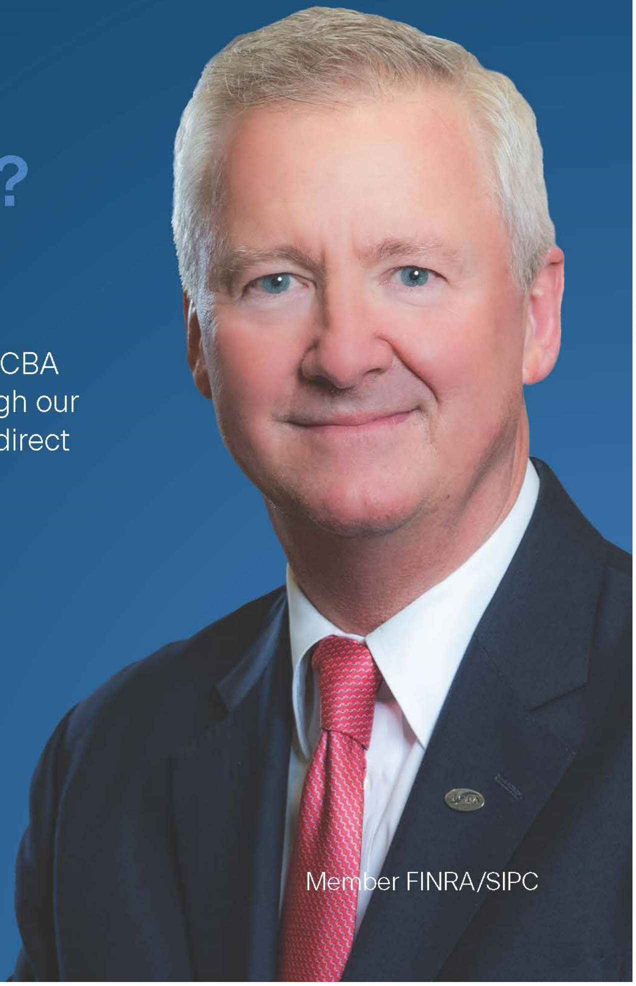
### Ballpark estimates

Of course, buyers of others' credits would not have ever materialized if there weren't adequate risk-adjusted returns. It's difficult to estimate a range of incremental returns over the treasury curve for a given block of loans, as clearly a portfolio will, by definition, not be homogenous. However, it's logical that the shorter the fixed-rate period (either to an adjustable reset date, a balloon date or maturity), the lower required yield.

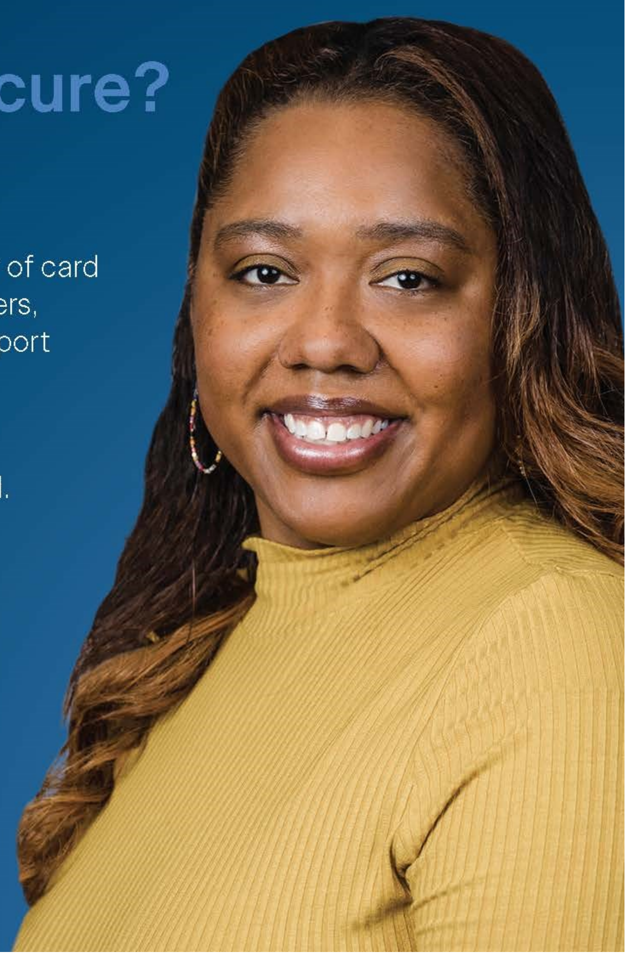
Collateral will also factor in the yields; single-family residences have lower risk levels than do autos or commercial properties. Nevertheless, it's not uncommon for a loan package to trade at 250 to 500 basis points (2.5% to 5%) over the curve.

That being the case, there are several strategies that can be employed with whole loans as an investment. One is a leverage, in which wholesale funding is used to finance the purchase. Blocks of loans could produce net spreads over the related borrowings of 2% to 3.5%, which is a multiple of available spreads from investment securities. Also, buying loan packages with proceeds from a sale of underwater bonds can greatly shorten the "earnback" period, perhaps to within 12 months.

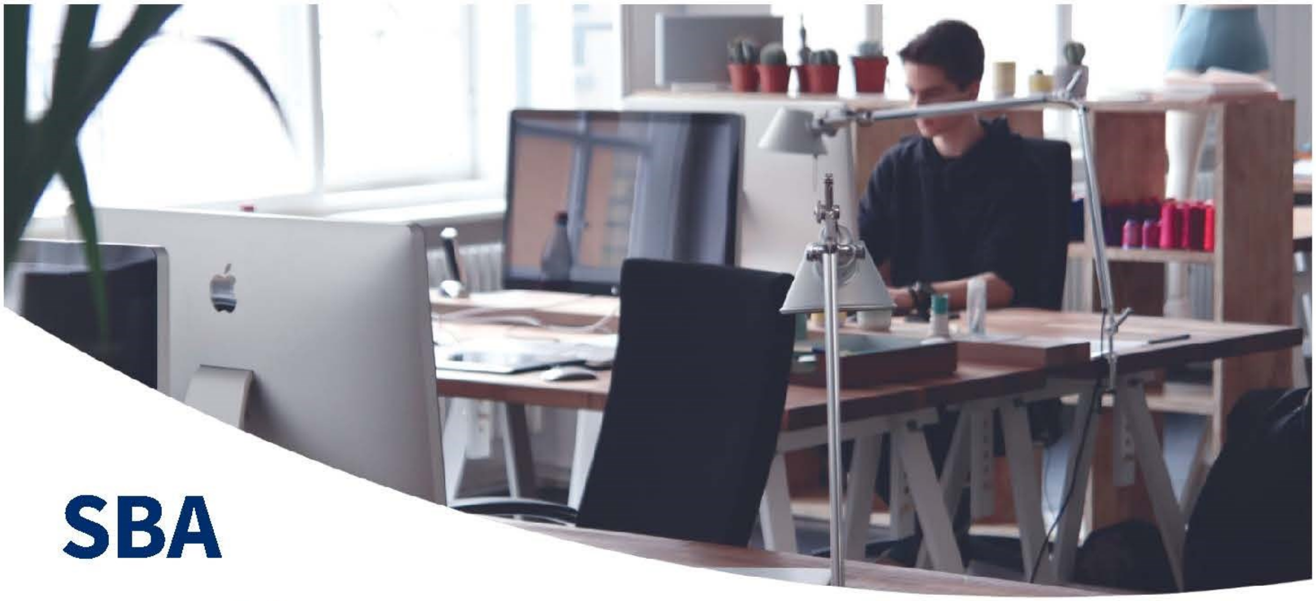
There are more nuances to whole loan trading than we can adequately cover in this space. However, given that bank lending could be in state of flux as the economy potentially slows, opportunities could arise for both buyers and sellers to benefit from these economic machinations. Finally, the start of 2024 gives whole loan market participants a full calendar year to realize, and recognize, the effects of the transaction.







U.S. Small Business Administration



# SBA Lending

## Powering America's Small Businesses

Preferred Solutions Provider

### SBA 7a Loans

Expand your portfolio and minimize your risk using SBA flagship loan guaranty program. Access up to 85 percent guaranty on loans up to $350,000 and 75 percent on loans up to $5 million.

### SBA 504 Loans

Invest in community growth through fixed asset financing. Increase your portfolio with 50 percent loan to value on fixed asset financing by partnering with an SBA Community Development Corporation.

**Increase your reach to borrowers outside of your local area with:**

**SBA Lender Match** - sba.gov/lendermatch

Contact the **Arkansas District Office** to get started today!


2120 Riverfront Dr
Little Rock, AR 72202

Phone: 501-324-7379
www.sba.gov/ar

**Arkansas District Office**

# Developing a Business Case for Cybersecurity

BY JASON CORDER

Cybersecurity is a topic that is regularly discussed at banking conferences, written about in banking publications, and focused on during regulatory examinations. Like the word "technology," cybersecurity can be a broad and ambiguous term in the banking context.

Even as prevalent as the topic of cybersecurity is, **in practice** the area of cybersecurity risk management in banks is often treated as a separate and unconnected exercise, or it is treated as an afterthought. Bank management often thinks of cybersecurity as something important but also considers it to be that "complicated stuff that gets handled by the people down in the IT department." While cybersecurity may get lip service as being a primary concern, boards of directors and senior management seldom prioritize understanding and implementing cybersecurity in the same way they prioritize loan quality, liquidity management, or interest rate risk.

A high-performing bank can no longer consider cybersecurity as an afterthought or keep cybersecurity in a silo by itself. To effectively navigate the challenges in today's banking environment, cybersecurity must be a **prioritized** and **integrated** component of every function within the bank. So, how does management move cybersecurity from its silo into every other area of the bank? One crucial way to make this transition from separated to integrated is to create an effective **business case** for cybersecurity.

A business case explains how a business decision will improve a business and affect profitability. Business cases are most often part of project management, though they are used in broader scenarios as well. One of the most entertaining places we see the use of business cases is on the reality television series *Shark Tank.* The show portrays hopeful entrepreneurs pitching their business ideas to a panel of encouraging or hardnosed investors with the hope of either getting an investment or some *Shark Tank* publicity. As a viewer of *Shark Tank*, it often seems that strong business cases for a product, even questionably viable products, sometimes get favorable terms and offers, while potentially strong products may not get offers because the entrepreneurs fail to develop a strong business case. Loan committees in financial institutions often have a similar atmosphere to *Shark Tank*, whereby loan officers present loan proposals to the loan committee for approval or rejection. A lender often puts together a strong (or weak) case for a loan to explain the loan request, shows how the credit aligns with the bank's business goals, and presents the ways a credit could be structured so that the profits and protections from the loan outweigh the risks of making the loan or the decision to not make the loan. An effective business case for the loan may show that the loan is marginally acceptable rather than marginally inadequate, a huge distinction.

A business case for robust and integrated cybersecurity, either the cybersecurity program as a whole or individual cybersecurity projects, should start with showing how cybersecurity aligns with the bank's business goals. Board members and senior management regularly focus and concentrate on measurable data such as returns (e.g., return on assets, return on capital), margins, and growth rates. The personnel responsible for presenting cybersecurity should effectively show how cybersecurity impacts each of those areas. For example, citing potential direct costs for a data breach can be eye-opening. IBM reports that the global average cost of a data breach in 2023 grew to $4.45 million, up 15% over three years. Using this type of data, adjusted to match the community bank's size and complexity, the business case for cybersecurity can illustrate the negative effects to the bank's performance ratios in the event of a cybersecurity event. Presenting concrete data and trends for cybersecurity incidents can be helpful for non-technical stakeholders in understanding potential consequences for inadequate cybersecurity. This understanding can result in buy-in from bank leadership for integrating cybersecurity into other facets of the bank.

*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.*

Less concrete – but equally important – factors for a cohesive cybersecurity risk management program include the role of community banks as educators and protectors of their customers and their communities (positive factors) and the reputational impact they would suffer for a cybersecurity failure (a negative factor). A business case for an integrated cybersecurity program should show how correctly handling these factors is core to the bank's business plan and its identity.

Of course, this means that the people in the bank responsible for cybersecurity must also understand their role in achieving the bank's goals. As Jimmy Sawyers (our firm's chairman and co-founder) often states, "It's easy to lock down a bank so tightly that no one wants to work for the bank, and no one wants to do business with the bank." Such an overreach can damage the customer experience and kill employee productivity. Those bank employees in charge of cybersecurity preparedness must understand the risk-reward proposition of banking as well as the bank's risk appetite so that they can effectively present a business case for cybersecurity. Additionally, both bank management and those directly responsible for a bank's cybersecurity must consider aspects of the risk management program beyond such things as firewalls and cybersecurity insurance. For a robust, integrated cybersecurity program, an understanding of the complementary nature of human and technical controls, a focus on security awareness, advice from trusted partners and consultants, and the "tone at the top" emphasizing cybersecurity are all vital to a successful cybersecurity program. As ransomware, business email compromise (BEC), and Corporate Account Takeover (CATO) incidents increase, cybersecurity is certainly a business issue that deserves significant attention, from the back office to the board room.

---

IBM. "Cost of a Data Breach Report 2023." Accessed January 22, 2024, https://www.ibm.com/reports/data-breach

# ICBA Insurance Program

COMMUNITY BANKS

Since 1983, Travelers has held the endorsement of the Independent Community Bankers of America (ICBA) as the preferred service provider for property casualty and various other types of insurance.

## Key ICBA member benefits

Through the Travelers ICBA Insurance Program, you get access to all of the advantages of a Travelers policyholder, along with these benefits:

- Opportunity to earn a "safety group" dividend – an incentive that has paid out dividends to eligible member banks since the program began in 1983
- Peace of mind knowing that the program is endorsed by the ICBA and that one-third of ICBA members already participate

## Policyholders' dividend

Member banks purchasing qualifying property/casualty* and workers compensation coverage may be eligible for a "safety group" dividend. The dividend may be distributed if group loss experience is favorable and other criteria are met.**

## Why Travelers

- We've provided effective insurance solutions for more than 160 years and address the needs of a wide range of industries
- We consistently receive high marks from independent ratings agencies for our financial strength and claims paying ability
- Our dedicated underwriters and claim professionals offer extensive industry and product knowledge

Dividend payouts over $75 million since the program began in 1983.

*Travelers knows community banks.*

To learn more, talk with your independent insurance agent or broker, or visit travelers.com/ICBA.

* All property/casualty coverages may not be available in certain areas. Countrywide, umbrella, mail and equipment breakdown coverages are not eligible for dividend payout.
** Dividends are not guaranteed and are subject to the approval of Travelers' board of directors.

travelers.com/ICBA

Travelers Casualty and Surety Company of America and its property casualty affiliates. One Tower Square, Hartford, CT 06183

This material does not amend, or otherwise affect, the provisions or coverages of any insurance policy or bond issued by Travelers. It is not a representation that coverage does or does not exist for any particular claim or loss under any such policy or bond. Coverage depends on the facts and circumstances involved in the claim or loss, all applicable policy or bond provisions, and any applicable law. Availability of coverage referenced in this document can depend on underwriting qualifications and state regulations.

# What stops community banks from improving their cybersecurity plan?

*BY AMY RADUE*

For some banks, personnel restraints prevent addressing cybersecurity adequately. For many other community banks, there's a monetary resource concern that prevents the proper preventative actions. But for most banks, the simple knowledge constraints, uncertainties, and confusion of what to do or where to begin are the largest causes of preventing improvements.

There are many options and lots of noise in the market making it particularly challenging to determine what is the best course of action to improve a bank's cybersecurity plan. All this can be addressed by a simple commitment and dedication to lower your vulnerabilities and reduce your risks.

Perhaps the place to start and first and biggest question to ask is: how do you know what you don't know? How do you make sure that your sole IT person, or your entire IT team is truly cutting edge, and in front of all these cybersecurity needs? Is it fair to expect them to be experts when there are so many options and constant changes to threats and prevention methods?

As this is critical for community banks, the challenges need to be addressed. While for many banks trepidation creeps in and fearful worries of taking the wrong steps kick in, according to Amy Radue, the UFS Director of Risk Management, "it does not need to be scary and you can make significant improvements to your bank's cybersecurity plan, and it starts with a commitment to improve your bank's security posture at all levels of the bank".

Cybersecurity is clearly the top priority for community bankers when asked about their current risk concerns. Radue was interviewed recently to share her observations regarding the heavy focus on cybersecurity, how banks can implement improvements to their cybersecurity plans, as well as to share how banks can manage the pressure related to regulatory compliance.

### How are banks addressing cybersecurity both in the short term as well as the long term?

Radue indicated community banks are utilizing a number of strategies for a strong cybersecurity plan, while most effectiveness begins with partnering with experts who understand cybersecurity and are completely dedicated to lowering risks of the bank.

Next steps would include having good cybersecurity insurance, as well as engaging in the different information sharing platforms that are out there such as: US-CERT/CISA, FS-ISAC and the American Bankers Association (ABA), among others. Radue also emphasized the value of sharing with a community of other bankers to collaborate on solutions that stay aware of the cybersecurity trends that are happening.

"Really great long-term solutions for community banks look like establishing a place for cybersecurity in your strategic plan," said Radue while addressing solutions for community banks. She stressed the value of making sure the bank's board is constantly aware of the increasing cybersecurity challenges that the banks are facing, the resources and solutions that are needed to address cybersecurity plus maintaining a holistic view of cybersecurity to address the issues effectively.

*Amy Radue is the UFS Director of Risk Management. UFS ia an ACB Associate Member. For more information on UFS, please contact Rick Bailey - rickb@ufstech.com or 314-322-2550*

### What can a bank do that is concerned with their current cybersecurity plan?

For a community bank who is really looking to mature their cybersecurity plan, the best advice Radue offered is to find a partner that the bank trusts who is in the cybersecurity world day in, and day out, and willing to guide them through this journey. It is with that partner, they can build confidence for the bank in several areas, including how to address their incident response plan as well as making sure that the bank's cybersecurity plan adapts with the constantly changing cybersecurity landscape that all bankers are all facing. With this approach, community banks are empowered to go further, confidently.

A cybersecurity focused organization is much more prepared to utilize global intelligence, artificial intelligence, machine learning and many other resources to stay current to reduce risks to banks but will also have the necessary response and remediation plans in place should an attack occur.

### How could adapting your cybersecurity plan benefit and impact the bank's operational efficiency?

"If we take finding a cybersecurity partner as our number one step for a community bank when it comes to facing cybersecurity… what that does for your internal operational efficiency, is to take that burden off the bank's internal staff to allow them to focus on other projects that need to be done," said Radue. She continued to emphasize that partnering with a cybersecurity expert not only moves efficiency forward, but now the bank has the confidence that issues are tackled as they come or even before they happen by a team of experienced experts for clearly productive approach to cybersecurity.

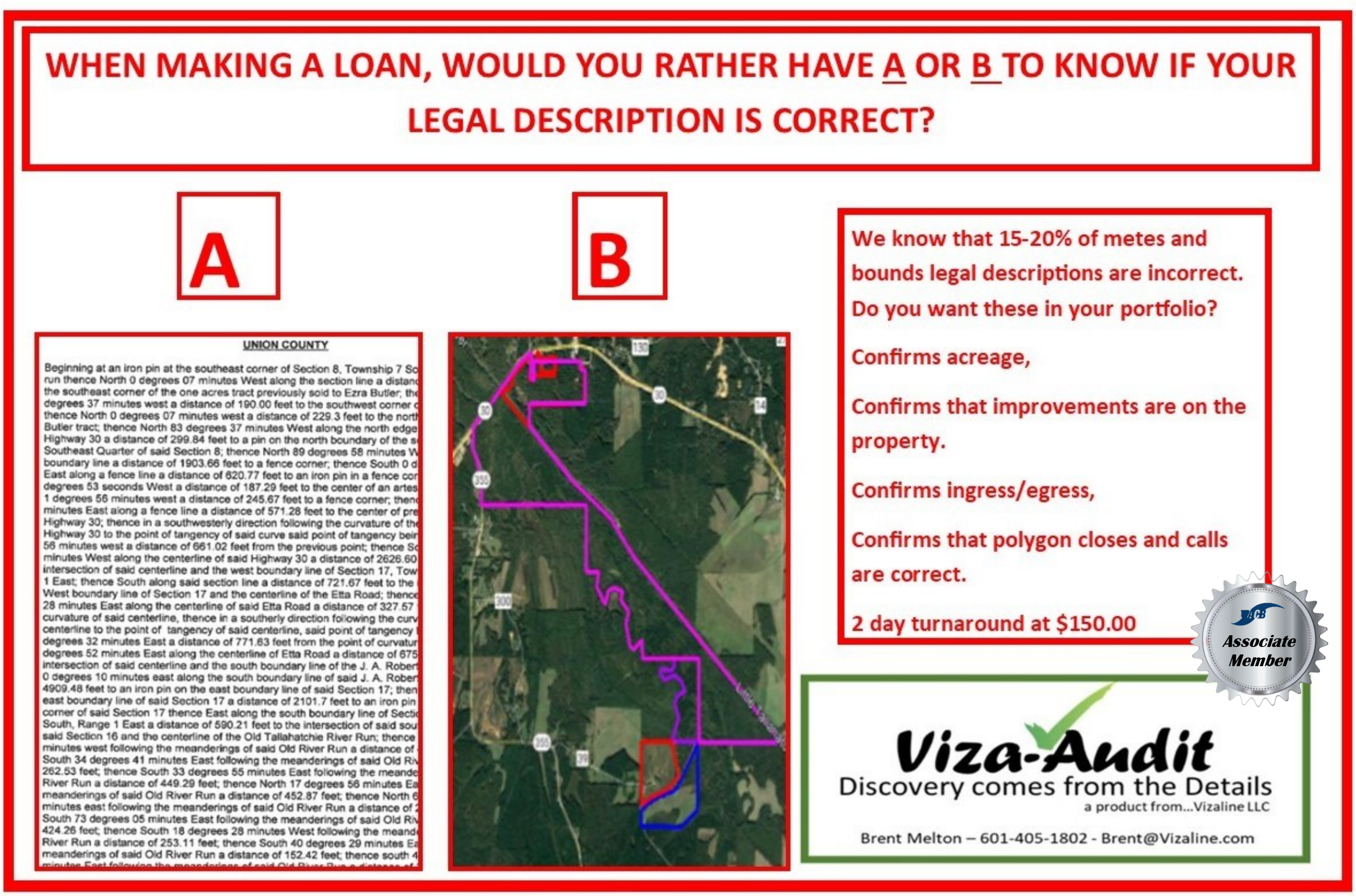
Radue reiterated the values of finding the right partner, finding the right tools, utilizing the tools given to us through the FFIEC and with this guidance, banks have the ability to be prepared for a cybersecurity event. "This preparation really removes some of that burden, and so using all those different tools we have together, it doesn't have to be as scary as it sounds, on the day to day."

### Are there reference tips for community bankers that they can use now to improve their cybersecurity posture?

Amy Radue generated 10 specific tips for community bankers to strengthen their cybersecurity plan. You can find those at: https://ufstech.com/cybersecurity-tips/.


Federal
PROTECTION, INC.®
Associate Member


Stop Ransomware with SureProtect from UFS
SureProtect
Advanced cybersecurity, purpose-built exclusively for community banks
UFS, the technology outfitter for community banks has responded to the rise in ransomware threats to provide SureProtect, the next generation "Cybersecurity as a Service" solution.
Prevent Zero-day Attacks
24x7 Security Operations
Rapid Response
Artificial Intelligence
Roll Back Capability
Reporting / Compliance
UFS
BANK TECHNOLOGY OUTFITTER
Associate Member
For more info visit: www.ufstech.com/sureprotect
262.376.3000 | www.ufstech.com | hello@ufstech.com
UFS is a proud member of the Arkansas Community Bankers Association


WHEN MAKING A LOAN, WOULD YOU RATHER HAVE A OR B TO KNOW IF YOUR LEGAL DESCRIPTION IS CORRECT?
A
B
UNION COUNTY
We know that 15-20% of metes and bounds legal descriptions are incorrect. Do you want these in your portfolio?
Confirms acreage,
Confirms that improvements are on the property.
Confirms ingress/egress,
Confirms that polygon closes and calls are correct.
2 day turnaround at $150.00
Associate Member
Viza-Audit
Discovery comes from the Details
a product from...Vizaline LLC
Brent Melton – 601-405-1802 - Brent@Vizaline.com


N
HARBOUR
resources
DELIVERING EXCELLENCE IN LEADERSHIP AND PERSONAL GROWTH
High-Performance
Leadership
Development
for America's Leaders
Associate
Member


PRINCIPLES
OF BANKING
The most popular training course in Banking is available in three convenient formats:
• Instructor-led online
• Guided Self-Study
• Private, in-house
NEED MORE TRAINING?
We have formats to fit every schedule!
Also available:
• Self-paced online - courses as little as $49!
• Live, e-Classroom training via Zoom!
• Webinars - Live & On-Demand!
Visit our website for course start dates & pricing!
CENTER FOR FINANCIAL TRAINING℠
Associate
Member
VISIT WWW.CFTNOW.ORG
TO REGISTER TODAY!
(800) 795-5242
INFO@CFTEDUCATION.ORG


FOR unmatched industry insight,
VISion matters
FORward VISion counts
Our vision is helping make yours a reality. Whether you're looking to stay compliant, manage risk, or grow strategically, our forward-thinking professionals can help you prepare for what's next.
Associate
Member
FORVIS™
ASSURANCE / TAX / ADVISORY
FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.
forvis.com/financial-services

# FLOURISH

REBECA ROMERO RAINEY
*ICBA President and CEO.*
*rebeca.romerorainey@icba.org*

*ACB is the ICBA Arkansas state affiliate.*

## Continuing the climb for our communities.

*"In advocacy, education and innovation, we are working alongside you to power your potential and help you surmount the trials you face along the journey."*

I recently came across a quote from the Pulitzer Prize-winning poet Theodore Roethke: "Over every mountain, there is a path, although it may not be seen from the valley." As an avid hiker myself, it resonated, because as you look up toward the climb ahead, you may not see the route, but you know it's there—not unlike the situation we face in community banking today.

As we enter 2024, we see a steep climb amid so many headwinds, including volatile interest rate and supervisory environments, emerging regulatory reforms, constant pressure on margins and more. Yet, with every step on the journey, we just get stronger.

As we look back on 2023, we felt the impact of numerous challenges—failures of large, risky banks, fluctuating interest rates, increased competition and more—and we not only survived but thrived. We championed new solutions like FedNow. We successfully advocated for the vast majority of community banks to be exempted from the FDIC's proposed special assessment. We expanded our innovation programs, creating a center for community bank innovation. These previous experiences have positioned our strength, and today, as we climb toward that next peak, we're honing new skills.

Each step is an investment in the future to further fuel the community banking model.

Our national campaign goes hand in hand with this work. By telling the compelling stories of the ways in which you make a difference, we'll continue to bolster the work you do. In advocacy, education and innovation, we are working alongside you to power your potential and help you surmount the trials you face along the journey.

And while this climb may be difficult, it will lead to new opportunities. As I reflect on my career, I realize some of the greatest learning moments were in the most challenging situations. That's how I know community banks will find a way as an industry, as a network of community bankers, to find the right next step to provide for our communities.

Hikers will stand at the bottom of the peak and realize it looks a lot higher than it did when they were farther away, but they made the climb. As we take our first steps into 2024, it's that same "bring it on" mentality that will continue to bring us strength and guide us. We're ready to see what lies ahead, embrace the challenge and create forward momentum. Because while the path from the valley to the summit may be circuitous, community bankers will always continue the climb for the good of their customers and communities.

Independent Community Bankers of America®

**Where I'll be this month**
I'll first meet with the ICBA Nominating Committee to continue our leadership journey, and then I'll head to Atlanta for a showcase from ICBA's sixth ThinkTECH Accelerator program.








*"Arkansas Capital's 2nd Look option provides us a great opportunity to get our small business customers' requests approved when we are unable to approve them under conventional terms."*

–JIM DANIELS
President & CEO,
First National
Bank of McGehee

**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.

Preferred Solutions Provider

# Survive till `25!

BY PHILIP K. SMITH and CHARLES PLUNKETT

As we head into 2024, reflect on 2023 and look to the future, it is important to position your organization for its best possible outcomes in the new year. In many strategic planning sessions in 2023, certainly toward the second half of the year, boards and management tried to determine a theme for 2024, and one of the loudest cries was "Survive till '25!"

While focusing on survival may seem somewhat ominous and not particularly "strategic," we believe positive outcomes can emerge from the renewed focus on the present. Therefore, as you prepare for the new year, if your organization's focus tends to be more toward status quo, "holding your ground," or even survival, consider these recommendations for what the board and management should be working on so that the organization not only survives, but remains well-positioned for 2024 and is set to thrive in 2025 and beyond.

## Engage in smart, practical strategic planning, not esoteric concepts

As your organization begins the process of strategic planning for the coming year or as you are making plans for how you are going to conduct planning in the Fall, consider whether your strategic planning has gone stale and needs a "refresh." Even if you follow the same general process, be sure to include new and different topics each year or consider inviting a smaller or larger group of individuals. Do you invite your executive officers? Is it only board members? Should you have a separate meeting with only management? If your strategic planning session tends to become a bit more operational and tactical, focused on the numbers side of things and more budget oriented, set aside a year where you intentionally force the participants to only focus on big picture strategic themes for the year, without tactical or operational discussions. Leave those to the management team. That approach might be particularly important for a year like 2024 if you are really using it to plan for the future rather than taking specific strategic steps.

Many organizations will split their planning sessions into separate meetings, one for strategic level thinking for the board, and a second meeting for management, focused on the operational and tactical and implementation plans. If an organization always does strategic planning at the bank location, consider going off-site. Don't spend a lot of time going over your Mission Statement and strengths, weaknesses, opportunities and threats every year, but if it has been three or more years since you have done that, take a brief amount of time to revisit it. The key is to keep your strategic planning fresh in terms of process, location, participants, the types of questions you ask and the overall structure of what you are doing.

## Identify possibilities and develop a branch strategy in 2024

In the recent environment, larger organizations appear to be offloading branches and exiting certain markets. Clearly, these are cost saving functions for those larger organizations, but it may present opportunities for smaller banks.

First, a smaller bank might very well find some opportunities to acquire one or more branches of a larger organization that is pulling out of a particular market. Often, the depositors will stick around even if someone else acquires the branch because of the difficulty of converting and low-cost deposits are certainly a great resource for funding your own growth in other markets. Secondly, if you happen to be in one of the markets where the branch of a larger organization is closing, take the opportunity to emphasize the uniqueness of community banks in remaining in communities, continuing to serve local customers, and not pull out of markets. Do not miss the opportunity to seize on a great marketing tool for your organization that you are still dedicated to your community when others are leaving.

It is also important in the current environment to reevaluate your own branch network and branch structure. While small banks may only have a few branch locations, it is critical to evaluate whether your branches are individually profitable or are really adding to the overall value of your organization. The larger banks are generally reducing branches as a way of improving overall efficiency. While community banks should not necessarily follow the lead of big banks, in today's environment, continuing to operate with excessively high efficiency ratios where an organization remains overstaffed with heavy investment in real estate, premises and other fixed assets may not prove beneficial over the long term. So don't hesitate to critique your own branch structure to determine if it is optimized. The period of excess deposits followed by a period of decreasing deposits provides an organization the chance to examine how they want to position themselves to increase profits.

## Establish strong and open lines of communications with your regulators

Perhaps not surprisingly, the first evidences of increased regulatory scrutiny, some asset quality problems, and other regulatory concerns are beginning to surface. Moreover, the regulators themselves are beginning to sound some preliminary warning bells that more regulatory problems may begin to rear their head. Therefore, as a leader of your organization, and recalling past downturns in the economy and asset quality problems, it is important to be ahead of the

*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.*

*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.*

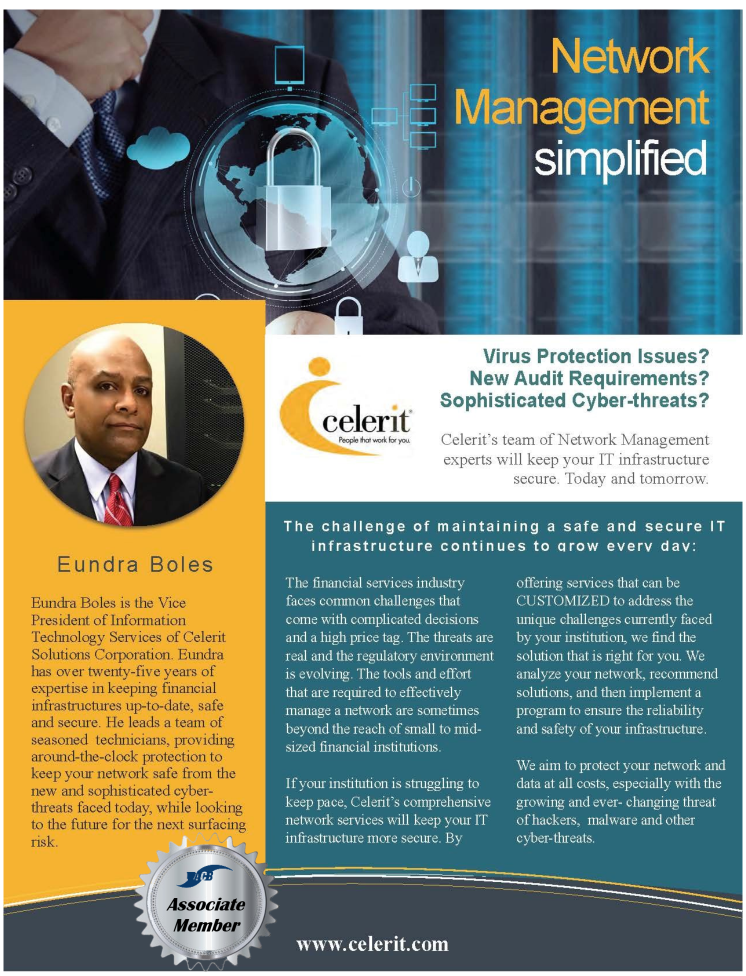
curve in managing the organization appropriately, including how you deal with regulatory personnel.

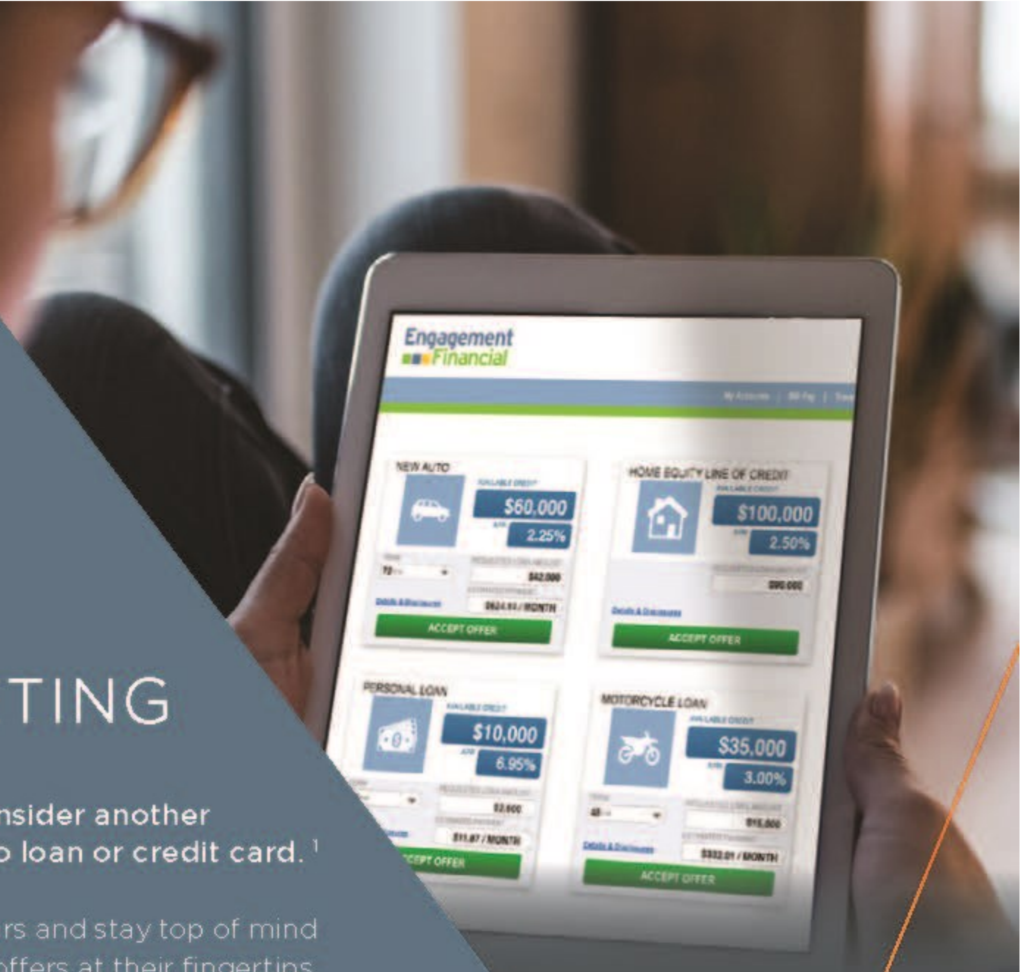
It should go without saying that openness, honesty, directness and transparency are of vital importance. Not only is it the right thing to do in a general sense, but it is important to take that approach because of the impact it has on the regulators. In essence, it is arguably better to have a host of problems and to be open, honest and direct with the regulators, than to have a few critical issues where you try to shade the truth or not be fully engaged with the regulators about the problems. The reason for that posture is because frankness with regulatory personnel goes a long way toward fostering management's credibility, which has a direct impact on the regulators' view of whether management has the willingness and capability to clean up the problems, and in turn, directly impacts the "M" component of your CAMELS ratings, which is critically important. It is not shocking to regulatory personnel if a bank has problems. All banks are subject to encountering problems somewhere along the way. The thing that distinguishes one bank from the other, though, is how they deal with it. Does the board acknowledge problems, tackle them head-on and begin the process of trying to fix the problems, even if that means fixing them by complying with an MOU or a Consent Order? Organizations which address their problems upfront and candidly typically wind up with a less invasive enforcement action, if they receive one at all, and more leniency by the regulators in agreeing to appropriate bank requests. Therefore, if your management team has credibility, then you should not hesitate to negotiate with the regulators on key provisions of a proposed MOU or Consent Order.

All of that being said, it is also important for a board of directors to stand their ground when they are correct. In unique circumstances, it may be appropriate for a board of directors to refuse to enter into an enforcement action or to acquiesce to a finding by the regulators on something where the bank believes they are clearly at fault. For example, if an examiner cites the bank for a legal violation of a statutory provision and you disagree with the way they are interpreting how the statute is applied, who says the regulator is a better lawyer than you are at reading the statute? If it is a legal question, how can someone who is not a judge or a lawyer make that determination? Occasionally, it is important to push back on a finding and ask for justification for that finding, or even to ask the in-house lawyers for the regulator to provide some feedback. Of course, if you are doing that, you probably need your own counsel as well, but it often works, and yes, they will, in fact, change exam findings if you appeal an adverse finding and you win, which occurs more often than you would probably think. The board must still maintain its fiduciary duties, even in the face of criticism.

So, if you are entering 2024 with a "survival" mentality, that does not mean avoiding strategic planning, it does not mean failure to take steps to position your organization for the future, and it does not mean foregoing your fiduciary duties. Be vigilant, remain informed and engaged, and positive things will result for the organization in the future.








# GO DIGITAL WITH YOUR LOAN MARKETING

**Nearly 60% of people would consider another lender for a mortgage loan, auto loan or credit card.** [1]

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:

> Single-loan preapprovals
> Multi-loan preapprovals
> Trigger-based offers

Combining proprietary consumer data and timely alerts from multiple credit bureaus offers the best opportunity for acquiring new loans.

**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

For additional lending insight, download the 2022 Financial Services TrendWatch report.
vericast.com/FinancialTrendWatch

Learn how we can help you expand for your lending portfolio at **vericast.com/Acquisition**

1.800.351.3843 contactHC@harlandclarke.com



ACB Preferred Solutions Provider

VERICAST

# The Truth About Private Equity-Backed MSPs

BY THOMAS DOUGLAS

In technology services, Managed Service Providers (MSPs) stand as crucial partners for banks seeking reliable IT support and solutions. However, a rising trend has emerged, reshaping the MSP sector: the influx of private equity (PE) investments. While this might seem like a positive development, bringing in fresh funds and promises of growth, it's vital for banks to look beneath the surface. The real question is, does a lower price tag promised by PE-backed MSPs equate to real value?

### Historical Shifts and Current Trends

Traditionally, MSPs thrived on close customer relationships, personalized services, and a deep understanding of specific business needs. The kind of service you'd want your grandmother to get. The kind of service your community has loved about your bank.

Nowadays, this has changed significantly. There's a wave of PE firms investing in MSPs, drawn by the sector's steady cash flows and growth potential. This shift brings a fundamental change in how these MSPs operate.

### Price Implications: A Double-Edged Sword

One noticeable impact of PE involvement is on pricing. With deeper pockets, PE-backed MSPs often offer competitive, sometimes lower, service pricing. Initially, this seems like a win for clients seeking cost-effective solutions. But the long-term effects on service quality are a concern worth considering.

### Pros: A Surface-Level Glance

There are definitely clear benefits.

- Enhanced financial resources
- Broader range of services
- Adopt better technology
- Expand at quicker rates

The promise of greater market reach is also appealing. But is this the *whole* story?

### The Flip Side: What Lies Beneath

Here's where the waters get murky.

- Profit generation becomes the primary goal
- Personalized customer service disappears
- Quality of service diminishes

Banks might encounter a one-size-fits-all approach, which rarely works because your institution isn't a copy-and-paste enterprise. Like you, it's 1 of 1.

Plus, increased market consolidation, a common aftermath of PE investments, can limit choices for clients, pushing them toward a generic service landscape that lacks innovation and personalization. And if there's one thing that's certain when it comes to technology, it's this: your technology needs to grow and evolve with you and your customers. Because your needs are going to change, and it's crucial that your IT support can keep up to meet them.

*Tom Douglas is Chief Executive Officer at JMark Business Solutions, an ACB Associate Member. You may connect with Tom at Tom@JMARK.com*

### Navigating the Changing Landscape

How does a business make an informed decision in this scenario? First, you need to understand the role and impact of private equity in the MSP sector. Identifying the trends and potential shifts in service quality is crucial to your continued satisfaction and success.

When selecting an IT service provider, the focus should extend beyond just the financial aspects. Here's what you need to keep in mind:

- Commitment to service quality
- Caring customer support
- Consistent regulatory compliance

Is the MSP willing to tailor their services to your specific needs? Are they proactive in their support and compliance audits? Do they listen to your questions without making you feel dumb? These are the questions you need to ask before signing on that bottom line.

Long-term, it's important to ask: Will the PE-backed MSP still put people over profit when things take a turn? Because above all, the right IT provider will give you confidence in your systems, not concern.

### Conclusion

While the allure of lower prices from PE-backed MSPs is understandable, you must weigh this against the potential risks to service quality and customization. The true cost of a service isn't just in its price tag. It's in the ***value*** it brings to your business.

Need help choosing the right IT partner for you? We've got you covered. Call 844-44-JMARK and let our team members share tips on how you can build your IT budget to make sure you get the best bang for your buck. From OML's role in your business's success to calculating and optimizing the best budget for you, you'll get an inside look at how other businesses are staying a step ahead and how you can, too.


We find time.
When IT is done well, it removes distractions and gives you time back on your calendar. Research shows that JMARK clients enjoy more than 20 extra discretionary hours a week with hassle-free IT. What is more time worth to you?
Associate Member
JMARK
Visit JMARK.com or call 844-44-JMARK.

SYSTEMS, LLC

A BOXX Modular company

*Others make promises.*
*We Deliver!*

## DISASTER RECOVERY PROGRAM

### Space
14'x70' commercial bank with enclosed office(s)
Two ADA compliant restrooms
Teller stations with under counter steel pedestals
Night depository with TL 15 safe
Alarm & CCTV systems
Furniture including file cabinets

### Power
Generator capable of powering the MPA facility

### Technology
Laptops, printers/fax, digital phones
Portable internet dish and core processor connection

### Connectivity
Satellite connectivity solution

## LEASING & SALES

### Custom
Full-service buildings with custom options
Design and build custom solutions

### Additional Services
Complete turnkey on-site services available including: fire proof cabinets, ADA ramps, decks, canopies and tube systems

Preferred Solutions Provider

888-233-1584 | www.mpasystems.com



| | |
|---|---|
| ACB Education | 10,14 |
| Allied Technology Group | 31 |
| Arkansas Capital Corporation | 7,29 |
| Arkansas Student Loan Authority | 16 |
| BHG Bank Network | 8 |
| Bankers Helping Bankers | 26 |
| Bank Strategic Solutions | 12 |
| Barret School of Banking | 4 |
| Celerit | 31 |
| Center for Financial Training | 26 |
| CRA Partners | 5,6 |
| Data Driven Partners | 28,IBC |
| DD&F Consulting | 16 |
| Federal Home Loan Bank | 12 |
| Federal Protection | 25 |
| First National Bankers Bank | 12,OBC |
| FORV/S | 26 |
| Gerrish Smith Tuck | 30,31 |
| Harbour Resources | 25 |
| ICBA | 27 |
| ICBA Education | 3 |
| ICBA Payments | 18 |
| ICBA Securities | 17,18 |
| IL Group | 28 |
| JMark | 34,35 |
| JTS Financial | 19 |
| Lively | 38 |
| Modern Banking Systems | 28 |
| MPA Systems | 36 |
| NFP | 11 |
| PCA Technologies | 16 |
| Quattlebaum, Grooms & Tull | 33 |
| Retriever Payment Systems | 16 |
| Sawyers & Jacobs | 21,22 |
| SBA | 20 |
| SHAZAM | IFC |
| Smiley Technologies | 9,10 |
| SouthState Bank | 10 |
| S&P Global | 13,14,15 |
| Travelers | 23 |
| UFS | 24,25 |
| Vericast - Harland - Clarke | 32 |
| Vizaline | 25 |
| Wallace Consulting | 28 |



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

Preferred Solutions Provider

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.

livelyme.com partnerships@livelyme.com 1.888.576.4837

# Actionable data.
# At your fingertips.

## Lending Leads

Powered by Data Driven Partners, LLC

Preferred Solutions Provider

**Lending Leads** provides *actionable data* for leaders, lenders, and compliance staff to execute growth strategies, compete effectively, and build relationships that align with your bank's CRA, fair lending, and compliance strategies.

**Join our webinar to see why banks trust Lending Leads to impact their success!**

**Thursday, April 18**
**10:30 am – 11:15 am**

Schedule your demo today! **DDPLendingLeads.com**

FNBB
Capital Markets

# Optimize Portfolio Performance

At FNBB, helping community financial institutions maximize their portfolio performance is our top priority. Our customer financial institutions have full access to our highly skilled and experienced team as well as a broad range of investment products and services.

**Reid Lynch**
Investments Sales Representative

205.262.2513
rlynch@bankers-bank.com

*Investment Services we offer:*

- Sales/Trading
- Asset Liability Management
- Comprehensive Asset Liability Management
- Portfolio Accounting
- Safekeeping

Associate Member

To learn more, scan the QR code and visit our website.

800.737.0535

**FNBB celebrating 40 years of Service Beyond Comparison**