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Second Quarter 2017

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Contents

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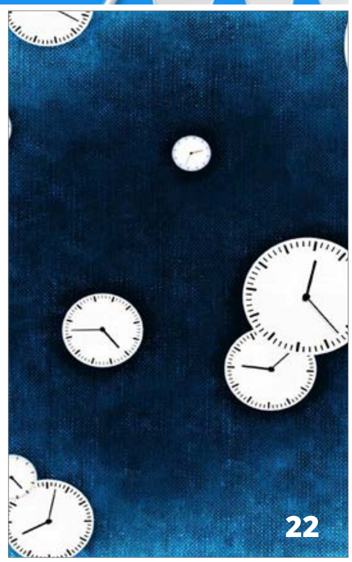

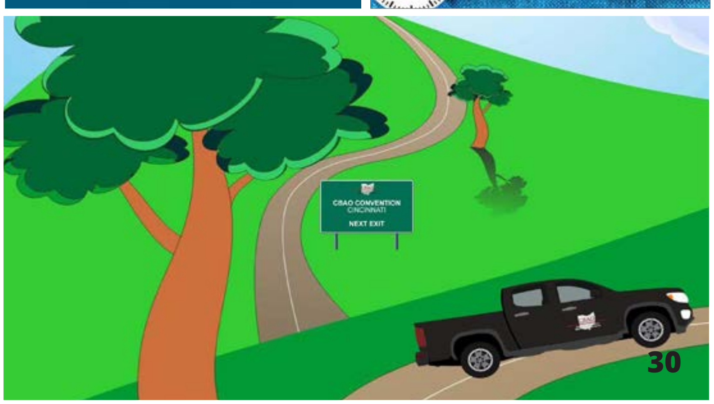

FEATURES

18 Enter an Era of Disruption to Community Banks

22 Here Today.....Here Tomorrow. Surviving Change.

38 The Two-Headed Technology Monster

COLUMNS

06 Industry Update

12 From the Chairman

13 Fine Points: Let's see it through

14 Community Banking Briefs

21 Community Banking – Opportunity Knocks

37 ICBA Securities: Coming and Going

LEGISLATIVE REPORT CARDS

09 State Legislative Report Cards

09 Federal Legislative Report Cards

CONTRIBUTED ARTICLES

10 AICPA SSAE 18: Does your service organization effectively assess the controls residing at its subservice organizations?

24 OP-ED: Maintain competition and routing in payments

25 What Do the Revisions to Ohio's Foreclosure Procedures Mean for Creditors?

27 The Growing Burden of Underfunded Public Pensions

30 CBAO's 43rd Annual Convention & Trade Show... The Road to Cincinnati

34 CECL: Your Step-by-Step Guide to Compliance by 2020-21

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Repeal, Replace, Reverse, Eliminate, Abolish, or Amend?

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As the Trump Administration has completed its first 100 days of leading our nation, talk continues to swirl around one of its higher priorities – repeal of the Dodd-Frank Act (DFA). The DFA is certainly on our short list as well.

While most agree that the DFA was necessary to protect consumers and prevent a repeat of the great recession, it is understood by banking industry experts that the main purpose of its creation was to increase the regulatory oversight of banks. Also, most agree that the DFA is too long and detailed, 22,000 pages of regulations, that leaves six regulators with the nearly impossible job of defining its intent.

But, is an all-out repeal of the DFA the answer for community banks? Repeal means to revoke or annul a law or congressional act. Call it a possible play on words, but repeal is not in the best interest of our industry. And, this became even more apparent during a recent conversation with an Ohio Congressman who seemed confused that the CBAO position on this was one of amend instead of repeal, replace or reverse. He asked explicitly "do you want the DFA or not". Our response was… parts of it.

Here's why. The DFA was one of the first pieces of legislation that differentiated community banks from other banks, the shadow banking industry, or other financial services providers. Some believe that this differentiation caused harm to the banking industry by creating separation. We don't agree. Do we want to be in the proverbial banking industry barrel with Wells, JP Morgan, IndyMac, Bear Stearns, Lehman Brothers, AIG, and the like? How has that benefited you in the past? The answer is more inappropriate regulation and a tarnished reputation.

In reality, the DFA contains many provisions that the community bank industry has lobbied for, and taken many years to obtain. Many of these provisions have had a substantial positive impact on your bottom line. Provisions such as the increase in FDIC Insurance coverage to $250,000.00, the change in your deposit insurance assessment to better represent the overall risk of your balance sheets and exemption from Sarbanes-Oxley 404 for small publicly traded community banks. Just to name a few. Other provisions that benefit our industry indirectly are the stress testing requirement for systemic banks, increased capital requirements for large banks, and the creation of living wills for large banks in the event of failure. And, ultimately it ended bailouts of large corporations by taxpayers.

Yes, there are provisions in the DFA that we would like changed. The repeal of the Durbin Amendment, the elimination or structural change of the Consumer Financial Protection Bureau (CFPB), and a larger "carve out" for community banks from the DFA which were never intended to be included.

So, as this issue moves from an Executive Order to Choice 2.0 to possible Congressional Action, our industry needs to rally together and clarify what our position is on the DFA. Do we want the DFA dismantled or eliminated? Honestly, it isn't realistic to think that it will be drastically dismantled and certainly not eliminated. But, it could be restructured. And, it needs to be done intelligently. And, change is still a long way off.

We agree that there is an opportunity for our industry here. An opportunity to get engaged. To have both our individual and unified industry voices heard. It's not going to just happen because we want it to, or that it is the right thing to do. Executive Orders and appropriate community banking legislation can only be effective if they are strongly supported by our industry. We are comfortable with reasonable regulation. What we are uncomfortable with is unbalanced and inappropriate regulation.

By the way, our vote is to amend the DFA!

Best Wishes!

Bob

What is CBAO FED PAC

CBAO FED PAC is a voluntary, nonpartisan political action committee of Community Bankers Association of Ohio. The objective of CBAO FED PAC is to support the election of candidates who have an understanding of the community banking industry. CBAO FED PAC is an essential tool in the efforts to ensure that our common concerns are heard and heeded by those who will make decisions affecting our industry.

What Responsibilities We Face

Advancing our issues and the protection of our interests is CBAO FED PAC's number one priority. Community bank and thrift institutions are facing critical legislative issues. Supporting CBAO FED PAC is the best way to aid the business from which we earn our livelihood.

Why Your Contributions are Needed

Under Ohio law, corporate funds cannot be contributed to candidates. Political Action Committees (PACs) must obtain their funds directly from individuals and use those funds only to help candidates finance their campaigns. Your personal contribution made directly to candidates clearly helps those candidates, but often may not convey the message that you are an officer, director, or staff member of a community bank or thrift institution that is directly affected by many types of legislation.

CBAO thanks the following for contributing to the CBAO FED PAC

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The Peoples Bank Co.
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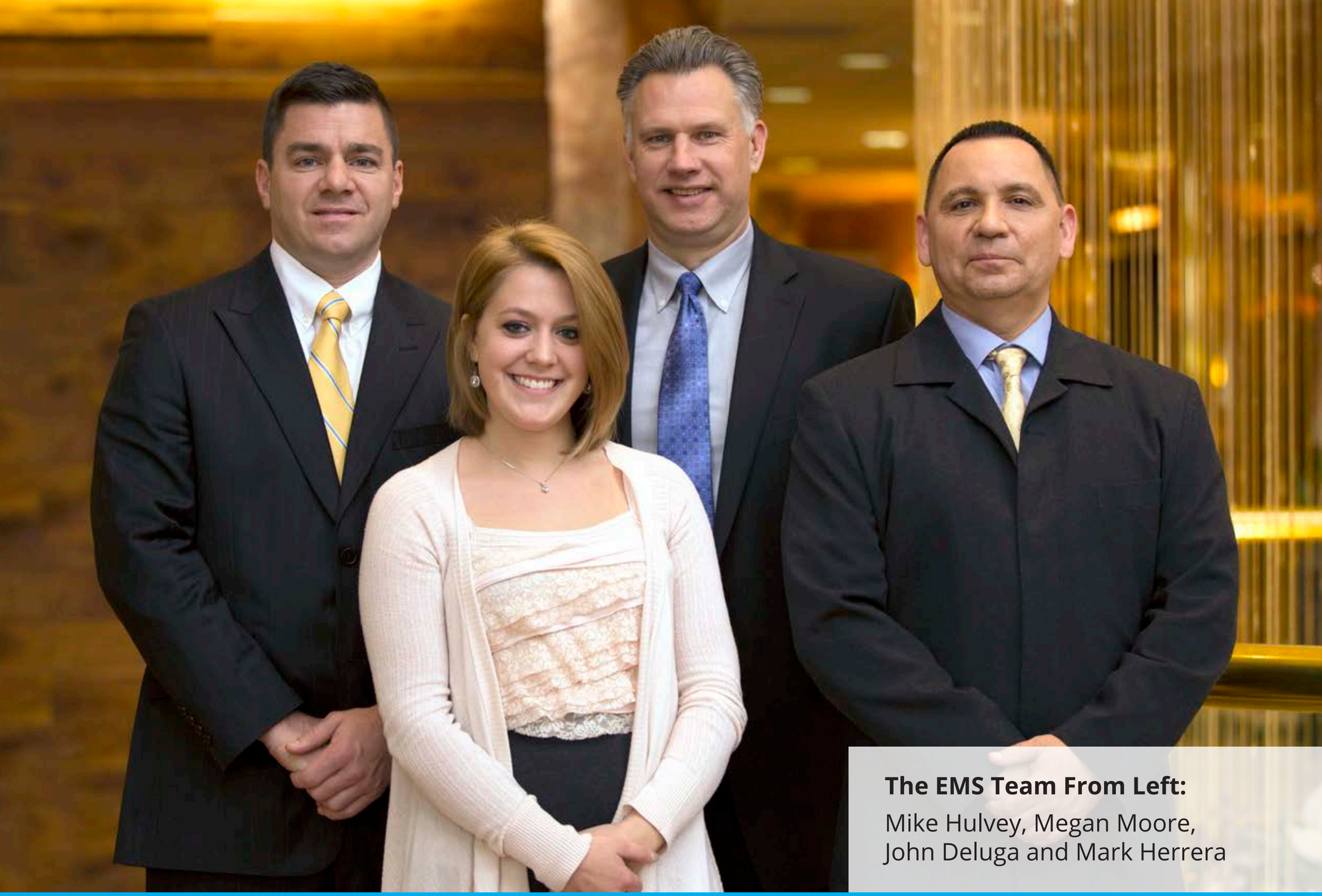

The EMS Team From Left:
Mike Hulvey, Megan Moore, John Deluga and Mark Herrera

Did You Know?

EMS Business Development has designed their partnership programs specifically for Community Banks.

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LEGISLATIVE REPORT CARDS

As part of our commitment to our community banks, CBAO is actively engaged in the legislative and regulatory activities at the State and Federal level. Visit our Industry Representation page to keep updated on the activities that affect you: www.cbao.com/industry-representation/industry-representation

STATE LEGISLATIVE REPORT CARDS

BILL	SPONSOR	DESCRIPTION	CBAO POSITION
H.B. 49	Smith, R.	2018-2019 Ohio Operating Budget	**Monitor**
H.B. 52	Rezabek, J.	Solicitation of Deeds Bill	**Monitor**
H.B. 67	Young, R.	Confessions of Judgement/Cognovit Clause Bill	**OPPOSE**
H.B. 106	Patton, T. Patmon, B.	Regulation of Nonbank ATM Bill	**Monitor**
H.B. 123	Koehler, K. Ashford, M.	Modify Short-term Loan Act	**Monitor**
H.B. 182	Seitz, B	Address Debt Adjusting	**Monitor**
H.B. 199	III, Blessing, L.	Enact Ohio Residential Mortgage Lending Act	**Monitor**
HCR 7	Sheehy, M. Ramos, D.	Reinstate Glass-Steagall Act	**Monitor**
SB 24	Terhar, L.	Enact Consumer Installment Loan Act	**Monitor**
SB 29 HB 35	Coley, B. Oelslager, S. Hughes, J.	Enact New Banking Law	**SUPPORT** **SUPPORT**
SB 38/ HB 86	Yuko, K. Smith, K.; Craig, H.	Minimum Wage Bill	**OPPOSE**
SB 49	Williams, S.	Job Applicant Felony Question Bill	**OPPOSE**
SB 120	Eklund, J.	Address Debt Adjusting	**Monitor**

FEDERAL LEGISLATIVE REPORT CARDS

BILL	SPONSOR	DESCRIPTION	CBAO POSITION
H.R. 10	Hensarling, J.	Financial CHOICE Act of 2017	**Monitor**
H.R. 24 / S. 16	Massie, T. / Royce, E.	Federal Reserve Transparency Act of 2017	**Monitor**
H.R. 389	Royce, E.	Amend Credit Union Member Business Loan Bill	**OPPOSE**
H.R. 402	Cohen, S.	Fair Access to Credit Report Scores Act of 2017	**Monitor**
H.R. 493	Capuano, M.	Subsidy Reserve Act of 2017	**Monitor**
H.R. 517	Ellison, K.	Ensure Fair Prices in Title Insurance Act of 2017	**Monitor**
H.R. 704	Ellison, K.	FHLB Community Development Financial Institutions Expansion Bill	**Monitor**
H.R. 924	Rothfus, K.	Financial Institutions Due Process Act of 2017	**SUPPORT**
H.R. 1116	Tipton, S.	TAILOR Act of 2017	**SUPPORT**
H.R. 1153	Huizenga, B.	Amend Truth in Lending Act Bill	**Monitor**
H.R. 1244	King, P.	Capital Access for Credit Unions	**OPPOSE**
H.R. 1264	Williams, R.	CFPB Exemption for Community Financial Institutions Bill	**SUPPORT**
H.R. 1422 S. 563	Ross, D. Heller, D.	Flood Insurance Market Parity and Modernization Act	**Monitor**
H.R. 1696 S. 711	Reichert, D. Thune, J.	S Corporation Modernization Act of 2017	**SUPPORT**
H.R. 1948	Love, M.	Small Bank Holding Company Threshold Bill	**SUPPORT**
H.R. 2133	Luetkemeyer, B.	The CLEARR Act of 2017	**Monitor**
H.R. 2204	Hultgren, R.	Homeowner Information Privacy Protection Act (HMDA)	**Monitor**
H.J. Res 62 S.J. Res 19	Graves, T. Perdue, D.	CFPB Prepaid Accounts Rule Disapproval	**Monitor** **Monitor**
S. 105	Fischer, D.	CFPB 5-Member Board of Directors Bill	**SUPPORT**
S. 223	Collins, S.	Senior$afe Act	**Monitor**
S. 365	Rounds, M.	CFPB Dismantling Bill	**Monitor**
S. 366 H.R. 1116	Rounds, M. Tipton, S.	TAILOR Act of 2017	**SUPPORT**
S. 387	Perdue, D.	CFPB Accountability Act of 2017	**SUPPORT**
S. 403	Hatch, O.	HSA Expansion Bill	**Monitor**
S. 1002	Moran, J.	Community Bank Economic Growth Bill	**Monitor**

AICPA SSAE 18

DOES YOUR SERVICE ORGANIZATION EFFECTIVELY ASSESS THE CONTROLS RESIDING AT ITS SUBSERVICE ORGANIZATIONS?

By Donald R. Owens, CPA, CFF, CITP, CIA, CFSA, CBA, CRMA
Schneider Downs & Co., Inc.

Many service organizations (e.g., payroll processors, data centers, facilities management companies), for reasons similar to why their clients contract with them, will contract with third parties to perform certain functions or services on their behalf. The AICPA refers to these third-party vendors of service organizations as "subservice organizations." Recognizing the impact that both service organizations and their subservice organizations can have on the financials of the service organizations' clients (a.k.a., user organizations), the AICPA established Service Organization Control (SOC 1) examinations. Within SOC 1 examinations, subservice organizations are defined as third parties contracted by service organizations to perform activities or provide services to the service organizations that could have financial implications to the clients of the service organizations. Therefore, the internal controls at these organizations are critical to the clients of the service organizations. To promote greater assurance over the financial information clients receive from their service organizations, knowing such could be dependent on the subservice organizations, the AICPA issued Statement on Standards for Attestation Engagements (SSAE) 18, which supersedes SSAE 16. SSAE 18, in comparison to SSAE 16, more explicitly addresses the need for service organizations to assess controls at subservice organizations and the controls residing within the service organization to complement the sub-servicer organizations' controls (complimentary controls).

These are the controls that management of the service organization assumes, in the design of the service organization's system, which will be implemented by the subservice organizations and are necessary to achieve the control objectives stated in management's description of the service organization's system.

The most significant change from the SSAE 16 requirements to the SSAE 18 requirements for service organizations that use a subservice organization is that the service organization has to put more emphasis on the monitoring of the effectiveness of controls at subservice organizations. Not only does the service organization need to include the subservice organization's control detail in management's description of the system, but they also have to monitor the effectiveness of the control at the subservice organization.

Management's description of the service organization's system and the scope of the service auditor's engagement are required to include controls at the service organization that monitor the effectiveness of controls at the subservice organization. These monitoring controls should include some combination of ongoing monitoring to determine that potential issues are identified timely and separate evaluations to determine that the effectiveness of internal control is maintained over time. SSAE 18 provides the following monitoring control suggestions:

- reviewing and reconciling output reports
- holding periodic discussions with the subservice organization
- making regular site visits to the subservice organization, testing controls at the subservice organization by members of the service organization's internal audit function
- reviewing type 1 or type 2 reports on the subservice organization's system prepared pursuant to this section or section 205
- monitoring external communications, such as customer complaints relevant to the services by the subservice organization

Remember the Statement on Standards for Attestation Engagements (SSAE) No. 18, Attestation Standards: Clarification and Recodification will be in effect for reports dated on or after May 1, 2017.

Contact Donald R. Owens
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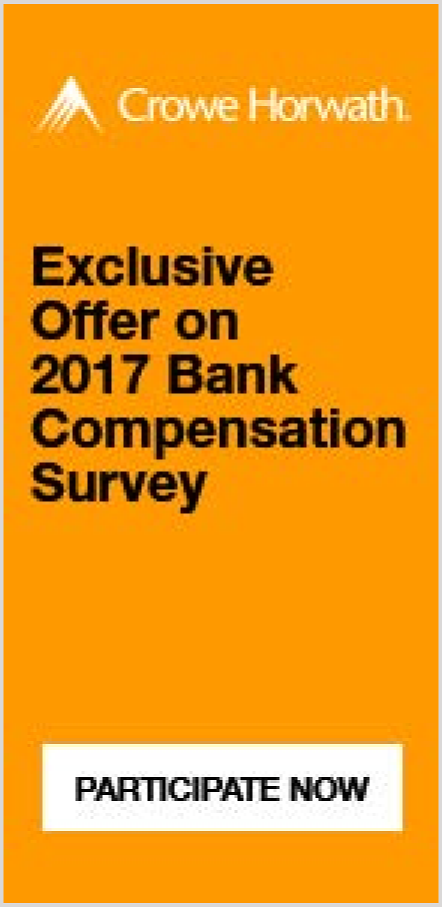
Email dowens@schneiderdowns.com

Crowe Bank Compensation & Benefits Survey



For more than 30 years, Crowe Horwath LLP has conducted a comprehensive annual survey of compensation-related practices in the banking industry.

This year, the survey report will provide salary and bonus benchmarks for **263 positions**, as well as information on benefits, incentives, director compensation, succession planning, and human resource practices. It will also allow you to benchmark your bank's compensation practices against those of other similar banks.

The survey results can help you address questions such as:

- Are our employees being paid competitively?
- What are banks planning for salary increases?
- Is our executive compensation package competitive?
- How do our director fees compare to others?
- What can we do to control the costs of benefits?
- How do our human resource programs compare with those of other banks?

The survey closes May 31, 2017

By participating in the survey, you will receive access to exclusive thought leadership and a substantial discount off the retail price of the survey report. ***The report is due in September, just in time for budget planning!***

Take the survey online or request it by contacting Kelly Phillips at ksphillips@cbao.com or (614) 610-1876.

We are the difference makers

As I write my first column as ICBA chairman, I'm filled with excitement, pride and determination. I look forward to seeing so many of you throughout the year as I travel the country and have the honor to represent and advocate for our great industry.

I had a taste of what this year will be like when I joined so many of you at ICBA Community Banking LIVE in San Antonio last month. There, I had the opportunity to speak with you about my priorities as chairman, our common challenges and goals, and one of my favorite stories, which demonstrates the power we all have to make a difference and how each action has a ripple effect.

The story recounts a man who was walking along the beach when he noticed a boy picking something up and gently throwing it back into the ocean. Approaching the boy, he asked, "What are you doing?"

The boy replied, "Throwing starfish back into the ocean."

The surf was up and the tide was going out. "If I don't throw them back, they'll die."

"Son," the man said, "don't you realize there are miles and miles of beach and hundreds of starfish? You can't make a difference!"

After listening politely, the boy bent down, picked up another starfish and threw it back into the ocean. Then, smiling, he said, "I made a difference for that one!"

Now that we're all back home in our communities, I wanted to remind you of that powerful visual and narrative.

We are difference makers, just like that little boy. That loan you make, that idea you have, is a difference maker in the life of your customer and for the community. Never forget that. As community bankers, we not only power capital, we also power dreams.

To showcase the power of community banks to make a difference, ICBA recently released a video, "Community Banking: Know the Difference," which you can share during ICBA Community Banking Month. But as you'll see, the video should be shared long after the event wraps. In the video, you see money from a water tower going into the small businesses that line Main Street. And that's what we do every day.

While money doesn't really pour out of water towers—it sure would be nice if it did—the analogy holds: Community banks are the water towers that keep their communities thriving and protected from a capital drought.

If you haven't seen the video yet, or downloaded ICBA's Community Banking Month marketing and communications toolkit, I encourage you to do so. That way, you can continue to spread the positive story of your community bank and community banks across the nation with your local media, customers and other stakeholders.

We need to build on the storytelling that Rebeca Romero Rainey, our fearless immediate past chairman, encouraged us all to do. We must tell our story, and ICBA Community Banking Month is a great time to do it. If we don't talk about how community banks are difference makers, nobody else will. It's up to us to make sure everyone knows where community banks stand and that we're the difference makers for our communities. ●

R. Scott Heitkamp,
Chairman
Independent Community
Bankers of America

Let's see it through

Camden R. Fine,
President and Chief Executive Officer
Independent Community
Bankers of America

Now is a great time to be a community banker. Spring brought with it a powerful and successful ICBA Community Banking LIVE national convention. And as we look ahead to the ICBA Capital Summit kicking off this month in the nation's capital, our industry is well positioned to achieve some historic policy victories in Washington.

We have fought long and hard for tiered, proportional regulation for community banks. We have battled for the kind of substantial relief that will truly energize our local economies, and now we're on the verge of getting it. But before we get carried away, let's remember that we have been fighting for meaningful relief for years—and we're not there yet.

Nothing in Washington is ever easy. Seeing significant reforms through to the president's desk is always hard work, no matter who is in charge. Now is the time for community bankers to rededicate ourselves to the job at hand. Now is our chance to dig deep, stay active and see regulatory relief all the way through to the end.

After all, we have gotten this far only through the hard work of those who came before us. Our mission goes back to ICBA's formative day.

May 9, 1930. Amid a financial panic, 28 community bankers gathered to discuss what to do about two large bank holding companies intent on vacuuming up every local bank in the Ninth Federal Reserve District. Rather than sell out, these independent bankers passed a hat for donations, used their collective strength to resist, and founded what is now ICBA.

Those individuals stood up for our industry's principles of relationship banking and our nation's ideals of independence and localized service. What brought them together then is the same thing that binds us together today.

Our strength still comes from collective action, our actions remain guided by principle, and our achievements are due to nothing less than hard work.

So in this season of rising temperatures and sunlit evenings, we cannot afford to sit back and rest on our laurels. We have far too many issues up in the air: regulatory relief, tax reform, credit union and Farm Credit System mission creep, and more. As optimistic as we might feel about the prospects of meaningful reform, we must work all the more diligently to finish the job. Now is the time to meet with lawmakers face to face at the ICBA Capital Summit, to sign ICBA's Plan for Prosperity petition on behalf of meaningful reform, and to ensure we are fully engaged on our advocacy goals, from the C-suite to the front line.

We cannot allow ourselves to be drowned out amid the clamor of competing interests in Washington. We have an excellent opportunity before us, and we cannot afford to waste it. We have been at it too long to settle for anything less than our absolute best.

So let's continue to speak out in solidarity. Let's continue to fight on behalf of our independent voice. Let's keep at it until the job is done. We owe it to ourselves, to our industry, to our local communities and to all those who came before us to see this thing through all the way to the end.

H. Grant Stephenson,
CBAO Legal Counsel
Porter, Wright, Morris & Arthur LLP

JUDICIAL REVIEW OF CAMELS RATINGS?

Bankers will be interested in a recent appellate court order in a bank regulatory case. Their lawyers will be astonished by it because the ruling lights a flicker of hope in an area where there has been none for many years: the judicial review of CAMELS ratings.

The ruling came early in a litigation seeking to contest the imposition of a CAMELS rating of 4. A CAMELS rating is a summary rating regulators use to quantify the condition of banks at a given point in time. For the uninitiated, the term stands for *C*apital, *A*ssets, *M*anagement, *E*arnings, *L*iquidity and interest rate *S*ensitivity. It is a fundamental element of the relationship between banks and their regulators. The rating impacts how much banks pay for federal deposit insurance, among other matters. A bad rating increases the cost of this insurance.

There are very few bankers of any experience who have not in their heart of hearts wished that they could contest an unsatisfactory CAMELS rating. The prospect of an even-handed judicial review might be a popular choice for many bankers.

What is not contestable however is a directive from a bank regulator to a bank regarding its capital level. That has been clear under applicable law since 1983 when Congress enacted a statute making such directives essentially a matter of regulatory discretion.

"There are very few bankers of any experience who have not in their heart of hearts wished that they could contest an unsatisfactory CAMELS rating. The prospect of an even-handed judicial review might be a popular choice for many bankers."

So the current decision even if it became final would not change that result regarding bank capital directives. But the reasoning employed in the decision suggests an important change to the way bankers and regulators think of CAMELS ratings may be in the offing.

Why is capital different than the rest of the factors measured by a CAMELS rating? In a nutshell, bankers think of the bank's capital, along with the bank's debt, as the means to finance the bank. Bank regulators acknowledge the financing function of bank capital but they are especially focused of the fact it also provides an all-important buffer between losses at an insured financial institution becoming losses borne by the Federal Deposit Insurance Fund.

In 1983, Congress enacted 12 U.S.C. Section 3907(a)(2). It provides in pertinent part:

> Each appropriate Federal banking agency shall have the authority to establish such minimum level of capital for a banking institution as the appropriate Federal banking agency, in its discretion, deems to be necessary or appropriate in light of the particular circumstances of the banking institution.

This section was enacted in response to a Fifth Circuit Court of Appeals decision concluding that a regulator's capital directive to a bank was not supported by substantial evidence. *First National Bank of Belliare v. Comptroller of the Currency*, 697 F.2d 674 (5th Cir. 1983).

The statute overturned the idea that judicial review applied to capital directives. Because the statute expresses no standards for how a court is to review a capital directive, courts have concluded the intention of Congress in enacting the statute must have been to relegate the subject area of capital adequacy entirely to the discretion of the banking regulatory agencies without any provision for judicial review. This is clear under well-established federal administrative law.

So 12 U.S.C. Section 3907(a)(2) long has been the wall the FDIC has raised against that unhappy banker who wished to go to court to challenge a CAMELS rating.

The holding in the recent Seventh Federal Circuit Court of Appeals decision in *Builders Bank v. FDIC Insurance* (NO. 16-2850), 2017 U.S. App. LEXIS 996, opens the possibility of a judicial review of CAMELS ratings ***other*** than the capital rating.

The FDIC argued in the case that the plaintiff's challenge to a CAMELS rating was just an end run around 12 U.S.C. Section 3907(a)(2). Speaking of CAMELS ratings generally the Seventh Circuit said however:

> Each of the six factors is rated separately on a scale of 1 to 5 and the rating as a whole aggregates those six factors. Suppose the FDIC's team of examiners were to conclude that the Bank had an adequate capital deserving a rating of 1 but the other components were unfavorable, leading to an overall rating to 4. The examiners may be right or wrong about those other issues, but the district court could ask whether the FDIC's final rating was arbitrary or supported by substantial evidence, without making any inroad into the agency's discretion to evaluate a bank's capital adequacy.

The Seventh Circuit sent the case back to a lower court for a separate determination whether bank was "just trying to disguise a challenge to a capital decision protected by Section 3907(a)(2)," among other things.

So here is a court proceeding bankers, and their lawyers, are likely to take interest in. And I suspect their interest will be keen.

HB 67 Warrants of Attorney

Another attack on the use of warrants of attorney to confess judgment was recently introduced into the 132nd Ohio General Assembly. H.B. 67 was introduced on February 16, 2017 by Representative Ron Young, a Republican of Leroy Township in Lake County. The bill has not yet been assigned to a committee.

The bill seeks to amend R.C. §2323.13(A) to limit a confession of judgment to situations involving "the settlement of a dispute". The bill does not further define that phrase. Echoing the "dispute settlement" language, H.B. 67 would also amend R.C. §2323.12 to limit confessions of judgment to the "settlement of a dispute" under R.C. §2323.13 and makes a violation of the law a first degree misdemeanor.

The final amendment sought by H.B. 67 is to Ohio's power of attorney statute, R.C. §1337.53 at subsections (F)(1), to prohibit the use of a general power of attorney with respect to claims and litigation to confess judgment. Echoing the changes to R.C. §§2323.12 and 2323.13, R.C. §1337.53(F)(2) would limit the use of a general power of attorney to confessing judgment "in connection with the settlement of a dispute."

The absence of any explanation of the meaning of the phrase "in connection with the settlement of a dispute" is very problematic, and could be construed to mean that judgment cannot be confessed against a debtor who simply does not respond to payment demands, but does not "dispute" the debt; it could also be construed to mean that the debtor must consent to the entry of judgment against him after default, thereby "settling a dispute", which renders redundant obtaining a warrant of attorney to confess judgment in the loan documentation phase of the transaction.

Attacks on warrants of attorney are becoming a biennial event: House Bill 291, which was introduced into the 131st General Assembly, sought to amend R.C. §2323.13 to limit confessions of judgment to instances of nonpayment of principal and interest under a debt instrument and require notice and an opportunity for a hearing to a defendant before entry of judgment pursuant to a confession of judgment. The bill did not get out of the House Judiciary Committee before the 131st General Assembly ended, but we are seeing a fresh attack in H.B. 67.

(Polly J. Harris, a partner in the Columbus office of Porter, Wright, Morris & Arthur, prepared this portion of Bank Brief.)

The Ohio Legislature Creates an Alternative to the Judicial Foreclosure Process for Certain Owners of Residential Property

The D.O.L.L.A.R. Deed Program for Ohio (the "Program") was created following the passage of Substitute House Bill 303, and went into effect on September 28, 2016 in order to provide an additional loss mitigation option for homeowners in default of their residential mortgage obligations. The acronym "D.O.L.L.A.R." stands for Deed Over, Lender Leaseback, Agreed Finance. Substitute House Bill 303 was unanimously passed by the Ohio legislature as a cost effective and efficient way for borrowers to avoid incurring the expense of defending a foreclosure action while trying to refinance their property and stay in their homes. As an alternative to the judicial foreclosure process, the law is meant to combat neighborhood blight and preserve home ownership by keeping borrowers in their homes while they try to refinance their defaulted mortgage obligations. If the refinance is unsuccessful, the property can be transferred to the lender. This affords Borrower with the opportunity to maintain and reclaim rights and possession of their real property while they try to address their outstanding mortgage obligations.

In order to qualify for the Program, a borrower does not have to be eligible for alternative mortgage loss mitigation, but his or her front-end and back-end debt-to-income ratios must fall below the current ratios set under the Home Affordable Modification Program ("HAMP") at the time of the application to the lender. Further, the borrower must occupy the residence. There is no requirement for a lender to participate in the Program, but the lender must provide a written decision to the borrower within thirty days of receiving a complete application.

If a lender approves the borrower's application for the Program, the parties would execute a deed-in-lieu of foreclosure, a notarized estoppel affidavit, and a lease with an option to purchase agreement. The Ohio Housing Finance Agency has enacted Ohio Administrative Code Rule 175-11-01, which created the model forms to be utilized by lenders wishing to utilize the Program. All of these forms are available on the Ohio Housing Finance Agency's website. The estoppel affidavit prevents any legal action outside of the agreement made between the lender and the borrower. The deed-in-lieu of foreclosure and the lease with an option to purchase agreement would be filed with the county recorder. The deed would provide as follows: (i) that the lender's mortgage and deed to the real property have not merged, (ii) that the lender retains its mortgage lien position on the property, (iii) that the transfer of the deed-in-lieu of foreclosure is an absolute conveyance of title to the real property, free and clear of any rights or claims of redemption, and (iv) that the transfer is the free act and will of the homeowner and is not made under duress or coercion.

The lease with an option to purchase agreement provides the consideration given by the borrower for the lender obtaining the deed-in-lieu of foreclosure. Then, the lender leases the property to the borrower that is the subject of the mortgage in default. The term of the lease is the earlier of the period of time necessary for the borrower to be approved for financing or other mortgage assistance by the Federal Housing Administration or two years from the date that the parties enter into the lease with an option to purchase agreement. The monthly rent charged under the lease by the lender is one-twelfth of an amount not less than the combination of all real property taxes, homeowner's insurance premiums, and any homeowner's association or condominium dues. Lastly, the purchase option must specify the purchase price available to the borrower for the property until the expiration of the lease term.

The lender approving the borrower's application must provide to the borrower the documents for his or her review at least ten business days before they need to be signed by the lender and the borrower. If the borrower fails to purchase the property within the time period specified in the lease, in the absence of a mutual written extension, the borrower's right to purchase terminates. Further, if the borrower, as a tenant, fails to comply with the payment terms in the lease with an option to purchase agreement, he or she forfeits their right to purchase the property and can be evicted from the property in accordance with Ohio residential eviction law. Further, the law shifts the traditional liabilities that would normally be vested with a residential landlord to the borrower, who is now considered the tenant at the property. The borrower is solely responsible for many traditional landlord duties at the property such as: complying with building housing and safety codes; maintaining the safety of common areas on the property; keeping the property in a fit and habitable condition; maintaining a supply of hot running water on the property; maintaining all utility fixtures appliance and elevators; and providing for trash removal in a multi-dwelling units of at least four units.

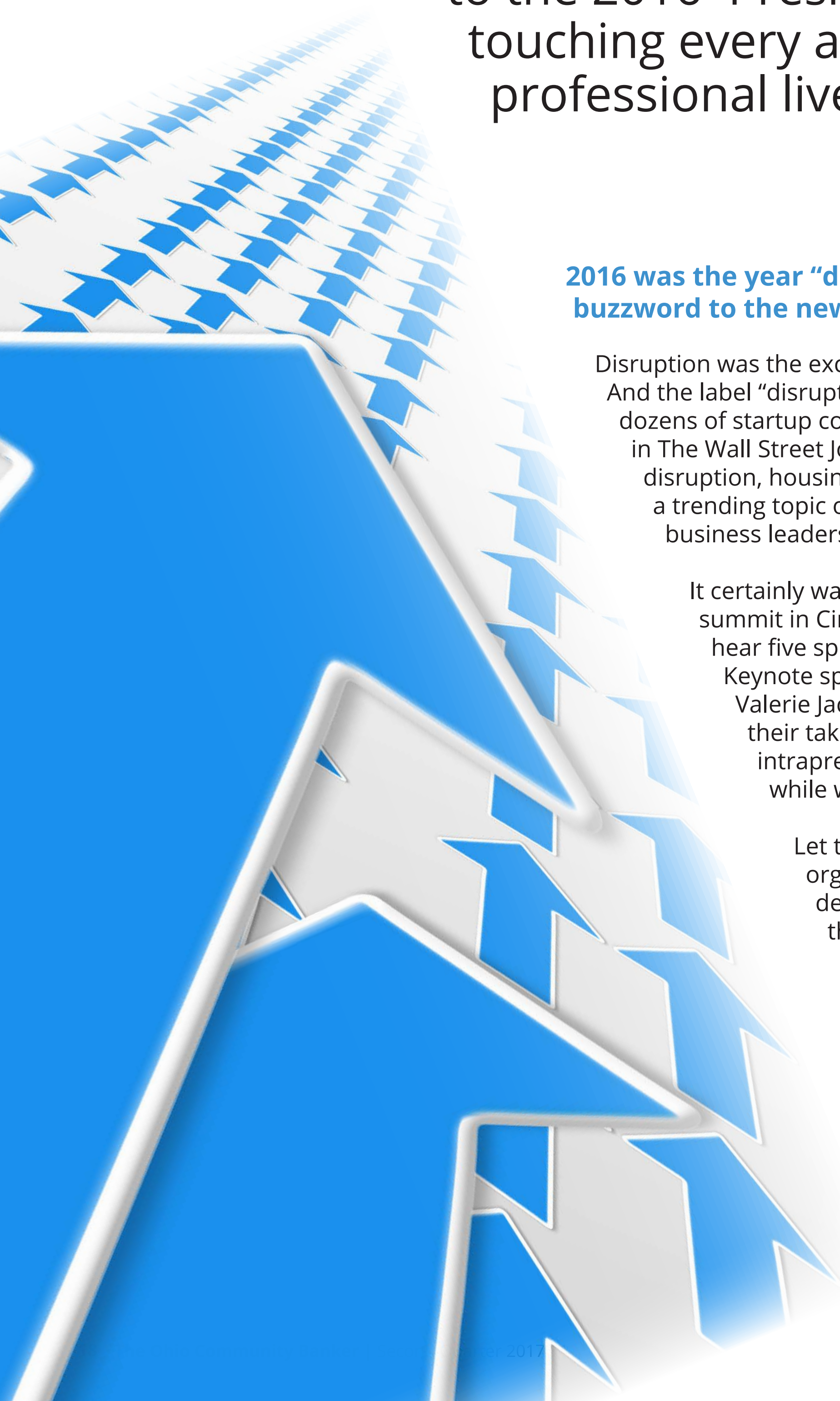
Lenders, who are faced with the prospect of deteriorating residential collateral while the property sits vacant and abandoned by the borrower during a lengthy foreclosure process, may now have a mechanism to obtain title to the property while keeping the borrower as a tenant at the property while he or she attempts to refinance the obligation. A lender must still conduct its due diligence and determine whether there are any liens, such as unpaid real estate taxes and assessments and junior mortgage liens, that encumber the property. These liens would need to be satisfied, either through a deed-in-lieu of foreclosure or foreclosure action, to ensure that the lender can obtain clear title to the property if the borrower's refinancing efforts are ultimately unsuccessful. •

(Tami Hart Kirby, a partner in the Dayton office of Porter, Wright, Morris & Arthur, prepared this portion of Bank Brief.)

ENTER AN ERA OF DISRUPTION TO COMMUNITY BANKS

From Airbnb and Uber to Dollar Shave Club to the 2016 Presidential race, disruption is touching every aspect of our personal and professional lives

By: Bret Anderson
NetGain Technologies



2016 was the year "disruption" shifted from a business buzzword to the new norm.

Disruption was the excuse given by CEOs of underperforming companies. And the label "disruptor" was enough to earn record investment capital for dozens of startup companies. You read about industrywide disruptions in The Wall Street Journal—media disruption, retail disruption, telecom disruption, housing and transportation and health care disruption. It was a trending topic on Twitter and LinkedIn, and pretty much anywhere business leaders got together to compare notes.

It certainly was at the annual HYPE Bold Fusion young professional summit in Cincinnati. More than 900 twenty-somethings attended to hear five speakers address what it means to be an **intrapreneur**. Keynote speaker Chitra Anand and "Intrapreneurs" Ross Meyer, Valerie Jacobs, James Marable, and Tony Blankemeyer discussed their take on intrapreneurism: the act of behaving like an entrepreneur while working within a traditional organization.

Let that settle in for a minute. An entrepreneur within the organizational construct. Does that mean the intrapreneur determines if he or she has a better way of doing things than your business already does them?

Yep. That's what that means.

Sound disruptive?

It is. And we're just getting started.

Think about the industries being affected by new ways of doing things.

In 2013, Blockbuster closed its last 300 stores. Netflix and others brought a new way to consume movies, eliminating the "middle man."

In 2005, Proctor & Gamble purchased Gillette for $56 BILLION. The high margin disposable razor industry was an attractive market for the multinational consumer goods company. After all, their business is about shelf positions and facings. How else can you compete without those prized display locations?

You do what Unilever did in 2016....

You buy Dollar Shave Club for $55 BILLION less than what P&G paid for Gillette and avoid the "middle man" altogether. Today, mail order razors account for eight percent of the market. Not bad for an industry that didn't exist five years ago.

Disruptive?

Airbnb and hotels, Uber and taxis... Community banks, you're next

Airbnb's year-over-year growth was 113% compared to Marriott's 8% and Wyndham's 6% from '14 to '15. Airbnb started in 2010 and last year had 500,000 guests per day. Today, one of every 30 lodging units in the entire U.S. market is an Airbnb listing. Not too bad, considering the start-up were denied Silicon Valley investors when seeking $150,000 in 2008 for seed money. (These and more Airbnb stats)

Would you consider Airbnb's reach growing 353 times what it was five years ago disruptive?

Oh, Airbnb also eliminates the "middle man."

Any blog on disruption wouldn't be complete without a take on Uber. Right?

To say Uber is doing well is an understatement. In 2013 its bookings were just under $700 million. Uber projected $26 BILLION in bookings in 2016. That's a staggering 3,614% growth in JUST THREE YEARS!

Disruptive? You bet your bookings it is.

But there is another side to Uber's success: What does Wall Street think?

Uber is still a "NFL" private company. By NFL I mean, Not For Long. Its valuation rests in the $63 BILLION range.

So what does Wall Street have to say?

Let's take a look at Medallion Financial Corporation (MFIN). They provide financing to taxi companies. In 2013 their stock hit a high of $17.74. However, in 2012 Uber launched UberX. UberX gives an ordinary person with an ordinary car the ability to jump in the private car service business. Wall Street responded and MFIN's stock price plummeted since that high in mid-2013. Today their stock hovers around $4.00. A 75-plus percent decline in just three years. Disruptive? Umm, yes.

So if 2016 was the year of disruption, will 2017 continue the trend? Sure it will.

What can community banks do about it?

Disruption to community banks is not a new topic. First came the ATM. Then online and mobile banking. Now bank unbundling and peer-to-peer payments are disrupting the traditional bank experience.

But that's not all bankers need to worry about.

According to Tiffani Bova, former Gartner VP, distinguished analyst, and research fellow, and now SalesForce.com's "global, customer growth, sales, and innovation evangelist" (a newly created positon—another disruption): **customer experience is the next disruptor.**

Here is what she said in a recent interview when asked, "*What do you think are the top trends shaping the industry?*"

> *Looking at it from sales and growth specifically, the biggest trend right now is how important customer experience is in developing and supporting a brand and improving sales performance. The customer decides when and how they want to interact with brands, and this impacts the way companies sell to their customers. Big macro trends such as social, mobile, cloud, big data, and IoT help create different experiences,* ***but ultimately the customer is becoming far more disruptive than the technology itself and shaping entirely new industries.***

So there we have it; from razors, to hotels and auto service to community banking... disruption is everywhere.

Customer experience is the key to not just success, but survival.

If you don't give the customer what they want, they just might eliminate you from the equation.

About Bret Anderson

Bret Anderson is the Vice President of Marketing & Development at NetGain Technologies. He has dedicated his 24-year career to sales and marketing but his continual study of I.T. trends makes him a bit of a futurist. Bret began his NetGain career in September 2006 and joined the company's executive leadership team in 2011. Bret's primary responsibilities include corporate branding and marketing strategy, persona development, demand generation, events and associations, vendor relations, corporate communications, CRM (customer relationship management) and MAP (marketing automation platform) utilization, sales recruiting and training, and aligning sales activity with the buying cycle to deliver new business. Utilizing his creative, forward-thinking, dynamic business approach, Bret helped lead NetGain Technologies through a challenging and competitive I.T. services and solutions marketplace. Since Bret join NetGain, the company has grown from three to seven branch locations with continued expansion expected. Bret was born in Chicago, raised in St. Louis, and has lived the last 12 years in Lexington, Ky. Outside the office, Bret enjoys family time with his wife, Carrie, and three children. Bret is also into fitness and is an avid spectator sports fan. As a graduate of the University of Missouri, he pays particular attention to Mizzou.

Opportunity Knocks

As we entered a new year with a new administration in Washington D.C., the only thing we were certain of is this year would be different. How different would still need to be observed and determined. Recently, over two dozen Ohio community bankers and industry executives traveled to Washington D.C. for CBAO's DC Fly-In in conjunction with ICBA's Capital Summit. Here community bankers met with legislators to ensure our voice would be heard on several pending bills.

The timing of our visit could not have been better. There were several bills as part of the ICBA Plan for Prosperity (The Financial CHOICE Act of 2017 and The CLEAR Relief Act of 2017) that were in review and markup for multiple days. Many Ohio legislators were eager to meet with and hear from Ohio's community bankers. Several more of Ohio's Congressional Delegation stepped out of active markup sessions to discuss specific items as part of the Financial CHOICE Act of 2017.

This active engagement on behalf of our legislators, industry and community bankers reflects the best opportunity in years for meaningful discussion. What will come of these conversations is still to be written; however, quality dialogue is a step in the right direction as we advocate for our communities in Ohio.

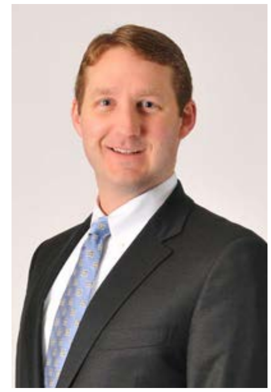
The next opportunity is ensuring the voice of community bankers is heard in Columbus, Ohio for Community Banking Day on Wednesday, May 17th.

Again, the timing could not be more appropriate. There are several bills that warrant our presence, but none more important than currently proposed H.B. 67. This bill threatens the removal of the cognovits clause in promissory notes.

Testimonials from community bankers are essential to informing our legislators regarding the merits of this provision. If you are unable to attend Community Banking Day this year, please mark April 29 - May 2, 2018 on your calendar for our CBAO DC Fly-In, when Ohio's community bankers converge on Washington, D.C. for the 2018 ICBA Capital Summit.

The summer brings a relaxing opportunity with a little more sunshine and time to network with fellow Ohio community bankers at the CBAO 10th Annual Community Banking Hospitality House. This is also an opportunity to say thank you to a valued director, colleague or small business client by entertaining them at the Hospitality House or purchasing course tickets. For details and/or to join us please visit www.communitybankinghosphouse.splashthat.com.

Sincerely,



Aza H. Bittinger,
Senior Vice President
Community Bankers Association of Ohio (CBAO)
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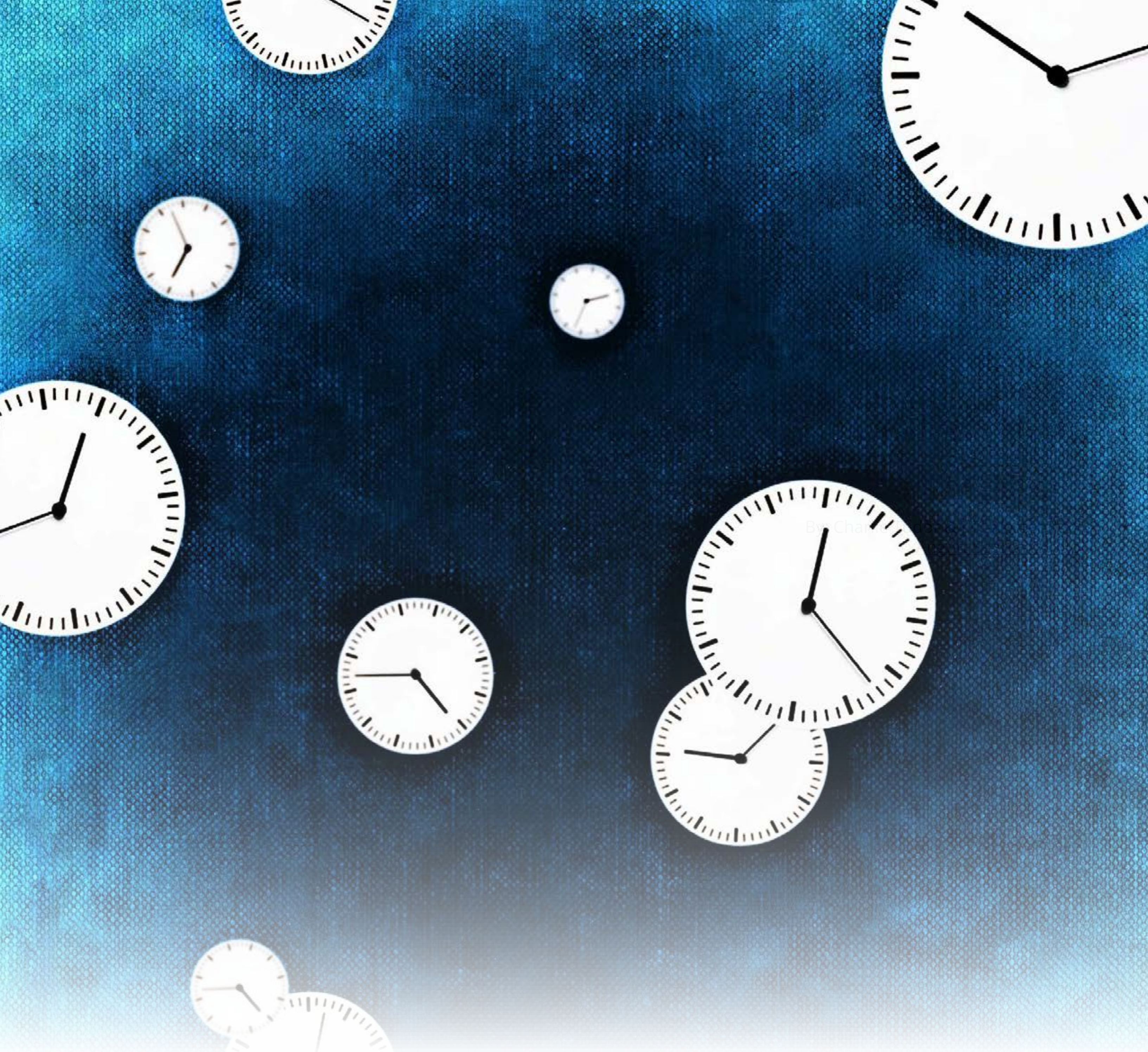
"Your big opportunity may be right where you are now."

– NAPOLEON HILL



Here Today.....Here Tomorrow. Surviving Change.

By: Jim Caliendo
PWCampbell

Much has been written and prophesized about the branch of the future. While experts may waiver on the particular components of the new model, they do remain constant on one thing – change is inevitable for financial institutions to maintain and increase both branch profitability and market share.

Change is never easy for anyone. With the rapid adoption of technological advances, the financial industry has witnessed many changes over the years:

- 1969, Chemical Bank installed the first ATM in the U.S.
- 1976, Direct Deposit of Social Security checks
- 1978, Seattle's First National Bank offered the first debit card to business executives
- In 1998, debit card transactions outnumbered the use of checks around the world for the first time
- 1994, Stanford Federal Credit Union introduces first online banking service in U.S.
- 2001, Account aggregation software available to give customers the ability to view all of their financial accounts in one place
- 2007, Apple launches the iPhone and a shift from banking via personal computer to banking via smart phone begins
- Total number of financial institutions in the US has decreased for five years in a row, from 2009 to 2013.
- In 2013, two to three branches were closed for every new branch that was opened

The financial institutions that have adopted and embraced these changes are the institutions that have either maintained or increased profitability. So what must community banks focus on today so that they can be more profitable tomorrow? There are five key elements which will help your institution not only survive but thrive over the coming years. They include:

1. Lowering costs
2. Becoming less transaction based
3. Focusing on sales
4. Committing to becoming a customer-centric organization
5. Implementing greater performance measures

First and foremost, financial institutions must look to lower costs. Investments in technology such as pushing paperless transactions and self-service kiosks will certainly reduce costs but perhaps the greatest gain comes from Human Resources. Branches are downsizing in space and staffing models are changing. The goal is to deliver a greater brand experience and greater branch profitability with less, but higher –skilled staff. Today, the average branch consists of a branch manager, assistant manager, two member service representatives and four tellers. That is a total of eight employees with an estimated total annual salary of $270,000. The branch of the future looks to cut staff by nearly 50% and salaries by $100,000 by employing fewer, but more highly-skilled, universal employees.

Second, institutions must look to become less transaction based. While many consider the branch to be their primary relationship channel, 90% of daily transactions are performed electronically. Checks are being phased out and branch traffic is declining. Does that mean branches are finished? Not at all! Community bank customers seem to have a strong affinity to branches even though they may visit them less. It does mean, however, that the role of the branch must change to be less dependent on transactions and have a greater dependency on selling, educating and solving problems.

Third, sales! This goes hand in hand with becoming less transaction based. In the past, branch employees were mainly order takers with the emphasis on operational efficiency. Today, sales and its importance cannot be undervalued. Sales and the sales process must lead every business decision from merchandising the branch inside and out, to the way leads are generated, to the way you hire, train and compensate your staff.

Fourth, organizations must make a commitment to becoming more member-centric. Members want more control over their finances, are less loyal to their existing providers and want a better experience. Performance is often based on service satisfaction, but service is only part of the equation. Financial institutions must educate and entertain their members while providing the necessary products and technology that enables members to bank quickly, efficiently and on their terms.

And finally, greater performance measures must be implemented company wide. With all the changes the branch of the future requires, strict measuring systems must be in place to ensure the changes being made are benefitting the bottom line. Of course this includes controlling costs, justifying any large investments and making sure you have the right people in the right job, but it also means implementing branch profitability models and continuously reviewing your branch facilities. Harsh decisions must be made regarding your branch network with regards to consolidation, closings, rebranding for greater growth and correcting all obsolete functionalities.

Just as financial institutions have had to adjust to change and new technology for decades, the trend continues with the branch of the future. While some experts envision the branch of the future to be built for speed based on self-service and 24-hour access, others believe it to be built on engagement where branding plays a key role in setting up more of a retail type feeling where members are encouraged to actively engage not just transact and get out. Either way, financial institutions that can excel at lowering expenses, become less transaction based, focus on sales, become customer-centric and evaluate performance effectively will live to see another profitable day. •

About James G. Caliendo

James G. Caliendo is a former bank executive and now President and COO at the 106 year old retail services and design/build firm, PWCampbell.

In the past 10 years alone, PWCampbell has influenced over 4 million square feet of banking locations and worked with over 175 financial institutions to create engaging, impactful and scalable solutions for every sized project.

OP-ED: Maintain competition and routing in payments

Paul Waltz, *President and Chief Executive Officer*
SHAZAM

The debate over regulating the payments industry has become more important than ever with vigorous activity around regulatory rollback and repeal. Preventing price fixing and regulatory overreach in the banking profession are important considerations, but preserving the interest of community banks should be at the heart of the debate.

In recent weeks, rhetoric supporting the idea that efforts to repeal Dodd-Frank should include a complete repeal of The Durbin Amendment has dominated the news. Much of the chatter is focused on pricing controls imposed under Durbin, with no consideration or little understanding of the second unaffiliated network requirement provision and prohibition on routing restrictions, which protects competition in the debit payments market.

What bankers know, and some of the op-ed authors have forgotten, is the best way to keep your costs in check is to make sure there is healthy competition between providers. The two unaffiliated network requirement and prohibition on routing restrictions do exactly that. They preserve the right to choice and flexibility for both bankers and merchants, and diminish influence that entities with significant market power would leverage to create longer-term damage in the market.

It is simply not true to suggest routing choice is only a benefit to merchants. The contention that merchants hold the only choice in routing a transaction falls apart when one simply turns over their debit card to see, plainly, it's the bank that chooses its network partners.

So, what happens if that choice for the banks is taken away? Without routing choice, smaller institutions, in particular, have no protection against punitive fees or costly brand mandates, and they will see costs go up sharply. That erodes interchange profit and creates a payments ecosystem where innovation is stifled.

The introduction of chip cards and tokenization like Apple Pay™ or Samsung Pay™ have, virtually overnight, inserted proprietary technology into what was an open, standards-based payments system. After the initial rollout of chip clearly showed undue influence of routing; the Federal Reserve had to step in and clarify rules to ensure compliance with the law.

What may be most puzzling is the effort by some to dismiss the safest transaction in the entire system, the PIN-based debit transaction. Globally, the largest networks extoll the security benefits of PIN, and advocate its use. One has to ask, then, "Why would anyone argue that PIN is harmful to community financial institutions and to consumers here in the U.S.?"

As a network and processor owned by community banks, SHAZAM isn't supportive of government price controls, even though most of our participants aren't affected by Durbin's interchange caps. However, we feel it's critical community banks maintain the benefit that comes from the requirements there be at least two unaffiliated routing choices for debit transactions along with the prohibition on routing restrictions.

The competition in the U.S. for debit processing services has allowed for innovation over the last 40 years. In addition, it serves as one of the last lines of defense for community financial institutions to have choice and flexibility, and enables their participation in electronic payments.

If the protection provided by Durbin is lost, the bank in your hometown may be significantly harmed. The dual-routing requirement and prohibition on routing restrictions in the Durbin Amendment protect the entire ecosystem from falling victim to those whose only motivation is their own bottom line. ●

About Paul Waltz

Paul's involvement with SHAZAM began in 1999 when he joined the SHAZAM / ITS, Inc. board of directors. He participated on the board's executive committee for 10 years and served as board chairman from 2009 to 2012. In 2014, Paul was named executive vice president and chief operating officer of SHAZAM/ITS, Inc. He's since been named president and chief executive officer.

Prior to joining SHAZAM, Paul was chief operating officer at First American Bank in Clive, Iowa, from 1999 to 2014 and was senior vice president at AmerUs Bank in Des Moines from 1996 to 1999. He served in several positions, including vice president, at Council Bluffs Savings Bank in Council Bluffs, Iowa, from 1980 to 1996.

Paul previously served on the board of directors for the Iowa Bankers Mortgage Corporation and was the founding president of the Progressive Bankers of Southwest Iowa. He currently serves on the board of directors for Rebuilding Together® Greater Des Moines, a nonprofit volunteer group that remodels homes for low-income families.

Paul majored in finance at Creighton University in Omaha, Nebraska, and earned a bachelor of science in business administration degree.

He currently lives in Johnston, Iowa, with his wife, Karen. They have four children. In his spare time, Paul enjoys winemaking, bike riding and hunting for geodes.

What Do the Revisions to Ohio's Foreclosure Procedures Mean for Creditors?

Larry R. Rothenberg, Esq., *Shareholder*
Weltman, Weinberg & Reis

Mortgage-secured creditors have adapted to the changes promulgated by Ohio House Bill 390, which went into effect on September 28, 2016. Despite the bill's title, "Sales tax-exempt sale of natural gas by municipal gas company," the bill includes changes to Ohio's foreclosure procedures, making new options available for creditors.

These options include a procedure to expedite foreclosures on vacant and abandoned residences, and a standardized process to request a private selling officer (instead of the sheriff) be authorized to conduct the sale.

Vacant and abandoned residential properties (Ohio Revised Code 2308.01 et seq)

The new procedure to request an expedited foreclosure on vacant and abandoned property applies to residential property. The statute defines "residential property" as a structure containing four or fewer dwelling units, each of which is intended for occupancy by either: a separate household; a residential condominium unit; or a manufactured or mobile home that is taxed as real property.

The plaintiff may file a motion with supporting evidence, and the court, after a hearing, may determine a residential property is vacant and abandoned upon finding all of the following:

1. The loan is in monetary default;
2. The plaintiff is the party entitled to enforce the loan documents;
3. The property is shown by clear and convincing evidence to be vacant and abandoned;
4. No defendant has filed an answer contesting the case; and
5. No defendant has filed a written statement claiming that the property is not vacant and abandoned.

At least <u>three</u> of the following indicia must be proven, to declare a property vacant and abandoned: utilities disconnected; windows or entrances boarded up or broken; accumulation of trash, or hazardous or unhealthy materials on the property; furnishings, window treatments, or personal items absent; vandalism, loitering, criminal conduct, physical destruction or deterioration of the property; a written statement expressing the intention of all mortgagors to abandon the property; no owner or tenant appearing to reside in the property at the time of an inspection by governmental officials; a written statement by an official indicating the structure is vacant and abandoned; or other reasonable indicia of abandonment.

If the motion is filed *before* the last answer date has expired, the court must rule on the motion within 21 days after expiration of the last answer date, or within the time consistent with local rules. If the motion is filed *after* the last answer date has expired, the court must rule on the motion within 21 days of its filing, or within the time consistent with local rules.

If the court determines the property is vacant and abandoned and enters a final judgment for foreclosure, the sheriff or private selling officer must schedule the sale for a date no later than 75 days after the clerk of courts issues order of sale. This directive, however, does not supersede other procedures adopted by the court (including mediation) to resolve the residential mortgage loan foreclosure action.

More recently, HB 390 was supplemented by HB 463, which prohibits the use of plywood to secure a property determined by the court to be vacant and abandoned. However, the statute does not specify a penalty for violating this provision.

The court may authorize a private selling officer instead of sheriff, to conduct the sale, (ORC 2329.152)
Judgment creditors have an option to file a motion for an order authorizing a licensed Ohio resident as a private selling officer to sell the real estate at a public auction, with a minimum bid of two-thirds of the sheriff's appraised value. The statute specifies the amounts of the private selling officer's fees and costs, and title company's costs, which may be taxed as court costs in the case. The judgment creditor may instruct the private selling officer to postpone the sale one or more times, for up to 180 days after the initial sale date, or to cancel the sale entirely.

A second sale is to take place if there are no bidders at the first sale (ORC 2329.52)
When the sheriff or private selling officer schedule the first sale, they also schedule a second sale to take place seven to 30 days after the first sale. If there are no bidders at the first sale, the second sale takes place – with no minimum bid requirement. If there are no bidders at the second sale, additional sales with no minimum bid requirement may follow. If there is a bidder at the second, or a subsequent sale, the judgment creditor and the first lienholder (if different) will each have the right to redeem the property within 14 days of the sale, by paying the purchase price, and thereby becoming the purchaser.

HB 390 also covers:

- Bidder deposits at the time of sale. No deposit is required from the judgment creditor or first mortgage holder at the time of the sale. (ORC 2329.211)
- The county prosecutor may cause a sale to be scheduled in an inactive post-judgment mortgage foreclosure (ORC 2329.071)
- If the sheriff does not record the deed within 14 days after the order confirming the sale, and payment, the purchaser has a remedy (ORC 2329.31)
- A statewide sheriff's sale website is to be established in the future, to allow foreclosure sale bids to be entered online (ORC 2329.153)
- Criminal mischief, such as intentionally damaging the property (ORC 2308.04 and ORC 2309.07)

The details involving the changes to Ohio's foreclosure procedures are extensive. To discuss the bill in greater detail, please contact Larry R. Rothenberg, Esq. Mr. Rothenberg is an attorney with more than 35 years of legal experience who has been recognized by Martindale-Hubbell as a leader in his field, and has been selected in multiple editions of Ohio Super Lawyers. He is a shareholder in the Real Estate Default Group of Weltman, Weinberg & Reis Co., LPA, located in Cleveland, Ohio. He can be reached at 216.685.1135 and lrothenberg@weltman.com. •

About Larry R. Rothenberg

Larry R. Rothenberg is a Shareholder of WWR's Real Estate Default Unit in the Cleveland office. He focuses his practice on commercial real estate, complex foreclosures, evictions and title insurance issues. Mr. Rothenberg received a B.B.A. summa cum laude from Ohio University in 1975 and a J.D. from The Ohio State University Michael E. Moritz College of Law in 1978. A member of the Ohio State and Cleveland Metropolitan Bar Associations, he is licensed in Ohio and admitted to practice before the U.S. District Court (Northern District of Ohio) and the Sixth Circuit Court of Appeals. He is a member of the American Legal and Financial Network and served as a Past President for the Mortgage Servicing Society of Northeast Ohio. He is the Chairman of the Foreclosure Procedures Committee for the Cleveland Metropolitan Bar Association and has also served as Chairman of the Real Estate section of the (former) Cleveland Bar Association as well as Chairman of the Real Estate Law Institute and Chairman of the Real Property Committee of the (former) Cuyahoga County Bar Association. Mr. Rothenberg can be reached at (216) 685-1135 or lrothenberg@!weltman.com.

The Growing Burden of Underfunded Public Pensions

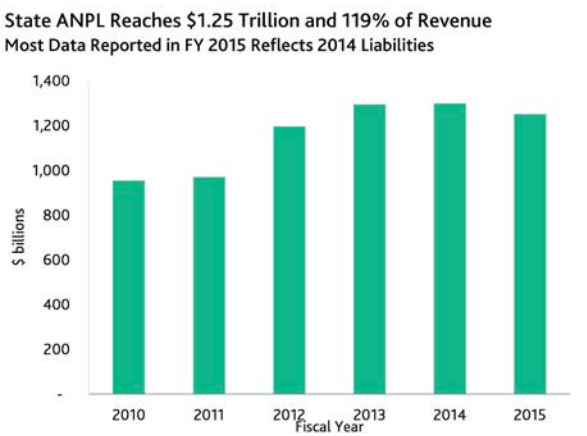
Dana Sparkman, **CFA**, *Vice President / Municipal Analyst*
The Baker Group LP

Connecticut's governor recently proposed forcing local municipalities to assume part of the state's pension liabilities for teachers, thereby reducing the state's burden. This raises questions of what caused the need for this extreme proposal and if similar actions could follow elsewhere. Better transparency of pension liabilities makes the need for reform of pension plans increasingly apparent. Many plans' unfunded liabilities are growing, which creates the need to make tough decisions about how to best manage those liabilities going forward. To understand why such a drastic measure was proposed, we must first understand the difficulty of funding defined-benefit pension plans.

Growth of Net Pension Liabilities

Defined-benefit pension plans promise employees specific benefits during retirement, despite investment performance. Employers gradually fund pension liabilities with annual contributions and investment returns, and net pension liabilities should decline over time as employers work toward a fully funded plan. However, Exhibit 1 reveals that adjusted net pension liabilities (ANPL) aggregated for states have been increasing according to Moody's. Moody's also projects that the combined ANPL for states will grow from $1.25 trillion in 2015 to $1.75 trillion in 2017.

Exhibit 1



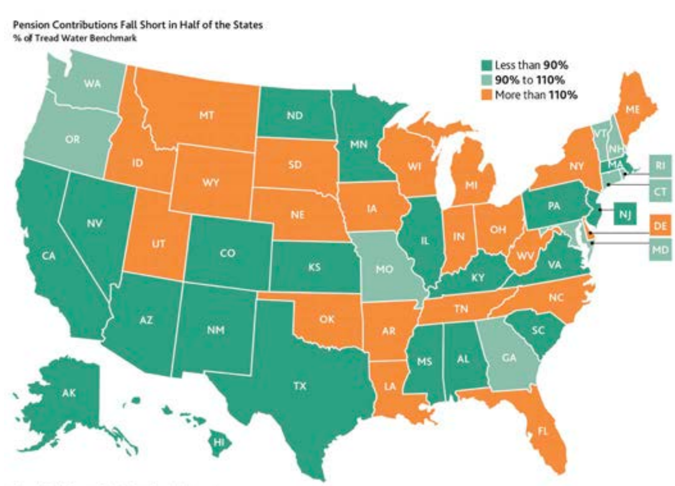
With the adoption of GASB 68, most state pension data is reported with a 6 to 12 month lag and reflects measurement dates from 2014. Only a small number of pension plans (20 or 222 plans) reported liabilities based on 2015 measurement dates.
Source: Moody's Investors Service; State audited financial reports and pension valuation reports

The state ANPL appears to decrease slightly in 2015 due to the transfer of some liabilities to local municipalities. The GASB standard that now requires municipalities to recognize their proportionate liability of shared plans also allows the plan sponsor (usually the state) to remove that same amount from their books. The Baker Group's internal database exposes a collective increase in local net pension liabilities of over $73 billion for those municipalities that have reported their 2016 financials already. Less than 10% of the municipalities for which we have 2015 and 2016 financials experienced a decrease in their NPL in 2016, and over 20% had NPLs that more than doubled.

Causes of Net Pension Liability Growth

Low investment returns, insufficient contributions, and assumption revisions can cause pension liability growth. A recent study performed by Moody's reveals that the median investment return target for public pension funds is 7.5% while the median actual returns were just 3.2% and 0.52% in 2015 and 2016, respectively. Similarly, contributing less than the required amount leads to deficient assets available for liabilities. Employers will, ideally, contribute at least the amount needed to "tread water" or keep their NPL unchanged. The map produced by Moody's shown in Exhibit 2 reveals which states contributed enough to tread water. Only half of the states met this benchmark. Another assumption change that causes rising NPLs is life expectancy. People are living longer now, so benefits will be paid for a longer period of time.

Exhibit 2



Source: Moody's Investors Service; State financial statements

Coping with High Net Pension Liabilities

Underfunded pension plans are looking for new ways to manage rising liabilities. Some have reduced cost of living adjustments and/or the dollar value of benefits, and some have increased the retirement age or required higher employee contributions. Most states legally protect pension benefits, making it nearly impossible to cut benefits for current employees/retirees, but all states allow benefit reductions for new hires. Researchers from the Center for Retirement Research at Boston College conducted a study revealing the changes plans have been making for current and new employees,as shown in Exhibits 3 and 4. About 74% of state plans and 57% of large local plans cut benefits and/or raised employee contributions, but only 25% of those that made cuts actually made cuts for current employees.

Pension liability redistribution is another option, but implementation might be difficult if significant hardship for municipalities would result. Transferring liabilities could be detrimental to struggling cities that would need to raise additional revenue and place further pressure on taxpayers. Connecticut's proposal includes provisions to reduce this adversity where necessary. For example, some cities and towns might receive education grants partially offsetting the cost of the shifted liabilities, and distressed cities and towns might have their portion of the transferred liability eliminated or subsidized.

Exhibit 3 – Plans Making Benefit Changes to Current Employees 2009-2014

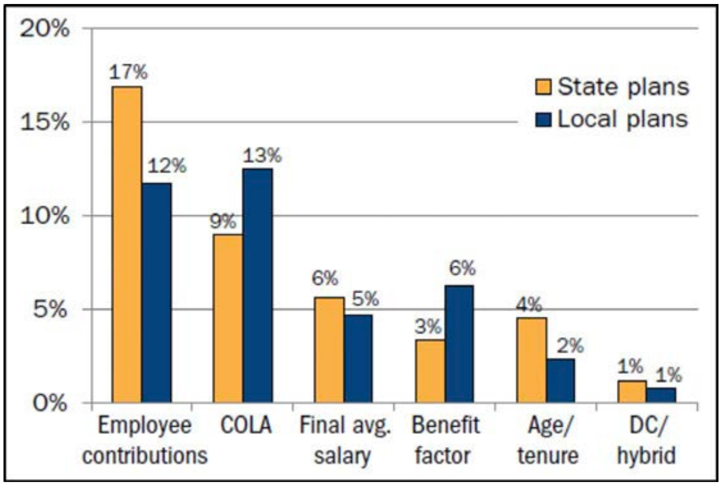
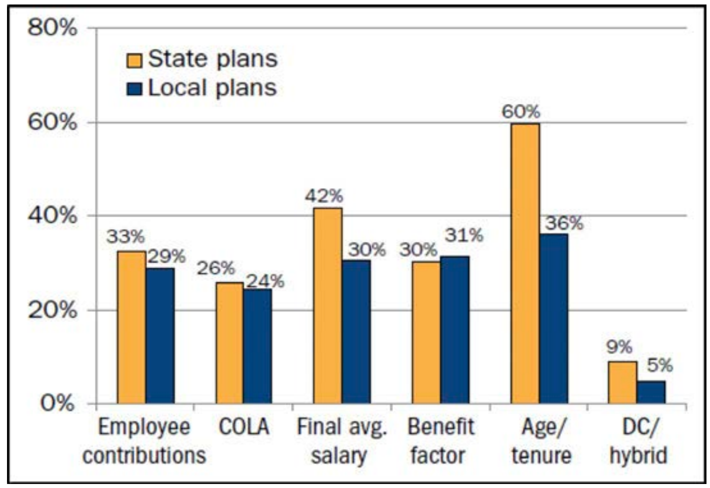


Exhibit 4 – Plans Making Benefit Changes to New Employees 2009-2014



Lastly, moving toward a defined-contribution model rather than defined-benefit would significantly decrease the affliction on employers and taxpayers. Defined-contribution plans allow employees to manage their own investment risk, and the amount received during retirement depends on their own contributions and investment returns. Changing plan types is a long-term solution since most states can't change plans for current employees.

Investors should always analyze local pension liabilities and consider any reform that may occur in the future. Although some states may have poor funding levels, many municipalities have their pension liabilities under control and may be able to assume more liabilities if states start to redistribute their pension liabilities to local municipalities.

About Dana Sparkman

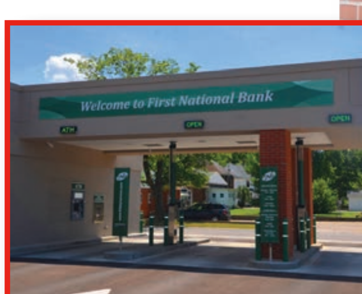
Dana Sparkman, CFA, is a municipal analyst in The Baker Group's Financial Strategies Group. She manages a municipal credit database that covers more than 100,000 municipal bonds, providing clients with specific credit metrics essential in assessing municipal credit. Dana earned a bachelor's degree in finance from the University of Central Oklahoma as well as the Chartered Financial Analyst designation. Contact: 405-415-7223, dana@gobaker.com.

Exceeding Expectations!

"PWCampbell transformed our existing structure and adjacent building into a beautiful, spacious building that has become an icon within the community and a great place for our customers and employees. And, more importantly, because of their vast knowledge of the financial industry, they were able to achieve this while enabling us to stay open for business so that we could continue providing excellent service to our customers throughout the entire process," stated Dean Keller, President & CEO of FNB of Sycamore.

First National Bank of Sycamore contemplated for a few years on how to expand and modernize their main office facility. Their driving force was to improve their already first-rate customer service, strengthen their presence within the Sycamore community and provide an enhanced work place for all employees.

"We knew this was going to be a very unusual and difficult project and we had prepared ourselves that our high expectations and unique requests would be very difficult to achieve" stated Donna Peterson, Vice President and Controller of FNB. This project required renovating existing space along with connecting an additional building, moving a heavily used drive-up, all while staying open for business. "PWCampbell not only met our expectations but they exceeded them" added Ms. Peterson. "Sure there were some minor construction issues that surfaced as you would expect with a project of this magnitude, but PWCampbell worked quickly to resolve them all to our satisfaction."



L to R:
Donna Peterson, *Vice President and Controller*
Dean Keller, *President & CEO*

PWCampbell
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PWCampbell is a retail services and design/build firm, headquartered in Pittsburgh, PA with over 100 years of solid experience in the construction industry. We are dedicated to serving our clients by providing the planning, design and construction expertise they seek to optimize their building efforts. With our strength in the design/build area, we have evolved into a third generation, full-service professional organization concentrating our efforts in the financial, commercial and residential industries.

CBAO's 43rd Annual Convention & Trade Show...

For the last three years, CBAO has hosted our Annual Convention & Trade Show in our hometown of Columbus. This year, we wanted to move our convention to a new location that is equally accessible to all our members, helps expand our connection with Ohio's community banks, introduces our bankers to new service providers, and provides a wide assortment of excellent food and a ton of fun! Ladies and gentlemen, we're heading to
Cincinnati!

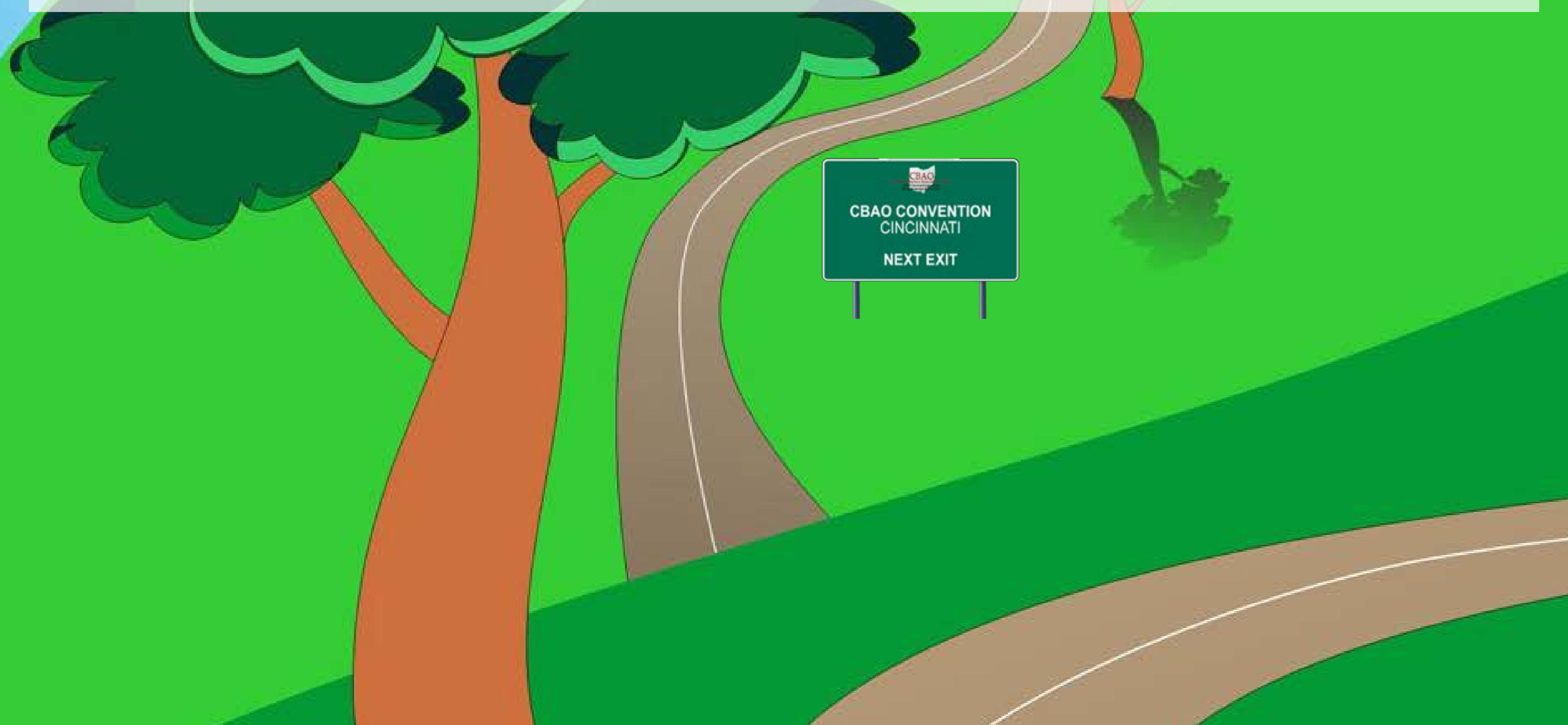
The CBAO team is excitedly working on this year's convention. We're looking to spice it up with in-demand education, high-profile speakers, and incredible experiences that truly celebrate what community banking is about – family and friends!

We've surveyed our members, talked to previous attendees, studied other events, and even hired new team members with event management experience to bring you what we feel is one of our best conventions yet!

At CBAO, we've been stepping up our game as a fierce advocate and devoted concierge for Ohio's community banks. We focus exclusively on community banking, because it's in our blood. With a deep commitment to supporting and enhancing the success of our industry, we wanted to host an event that brings together our community to share ideas, discuss challenges, and help prepare the future generations of community banking.

Few changes you'll notice this year:

- **Targeted sessions** – while our keynote speakers and sessions are applicable to all levels in your community bank, we have streamlined the focus to allow for other members of your teams to attend the convention without necessarily having to stay the entire time.
- **Discounted Supplementary Badges for Our Community Banks** – as soon as a full convention badge is purchased by someone at your community bank, anyone



The Road to Cincinnati

thereafter will receive a discounted rate (a $159 savings per badge)

- **Student Badges** – to expand community banking's outreach to the next generation of talent, we're offering discounted access to students currently enrolled in a two- or four-year program at any college or university in the U.S., as well as high school seniors.
- **Fun and funky Annual Golf Outing** – this year's Annual Golf Outing is going to be a change of pace with classic and unusual (but FUN) course contests, photo ops, games, laughs, cigars and good times. If you leave without a smile on your face, we did something wrong… or it could be the incredibly challenging course we found (yes, we say that with an evil grin)
- **Even more engaging events** – from our Welcome Reception to our Community Banking Casino Night and even our Chairman's Banquet, we want you to have a great time while networking with your colleagues.

Whether you've consistently attended our convention, taken a break from it or never attended at all, we invite you to join us this year. Come see what CBAO is about: a fun and energetic group of professionals who have a deep commitment to Ohio's community banks and supporting their efforts to serve their neighbors with the personalized service and care that only community bankers can provide. After all, community banks are the ♥ of Ohio's banking industry!

To learn more and to register please visit:
www.cbao.com/events/cbao-annual-convention

We'll see you in Cincinnati!

Our CEO, CFO & Senior Lender Forums are still accepting participants!

Our forums provide collaborative, easy-going learning environments that address regulatory and procedural issues and provide a platform to speak freely and collaborate on challenges.

- Learn from experts on regulatory changes and best practices
- Build meaningful relationships with colleagues
- Get access to premium tools and templates you can use with your team
- Utilize the groups expertise to solve internal challenges that come up throughout the year
- Discuss emerging trends and threats

To reserve your space, please contact Kelly Phillips
at **ksphillips@cbao.com** or **(614) 610-1876**

CBAO
Community Bankers Association of Ohio
CBAO Service Corporation
CBAO Insurance Agency, Inc.

2017 Toy Drive

Benefiting NATIONWIDE CHILDREN'S

When your child needs a hospital, everything matters.℠

Don't forget to bring your donation to the Hospitality House!

This year, we're collecting toys, books and gift cards (Toys R Us or Target) to donate to the patients at Nationwide Children's! Bring a donation (or send it to our office) and receive an extra drink ticket while you're at the Hospitality House!

All gift cards collected will be used to purchase items on Nationwide Children's donation wish list.
If you have any questions or would like to donate, please contact Kelly Phillips at ksphillips@cbao.com or (614) 610-1876

A Career Path to BANKING

Columbus State Community College, Heartland Bank and Community Bankers Association of Ohio (CBAO) have developed the ***Certificate of Banking Fundamentals*** program to train the next generation of bankers.

After successfully completing 28 hours of online coursework at Columbus State, students will be eligible to participate in on-site internships at participating central Ohio financial institutions.

The Certificate of Banking Fundamentals will train students to be successful in Client Service Representative (Teller) and Operations positions, which range in starting annual salary from $25,000 - $30,00. Whether your interest lies in retail banking, commercial banking or banking operations, career paths are available for you.

HEARTLAND BANK

CBAO
Community Bankers Association of Ohio
CBAO Service Corporation
CBAO Insurance Agency, Inc.

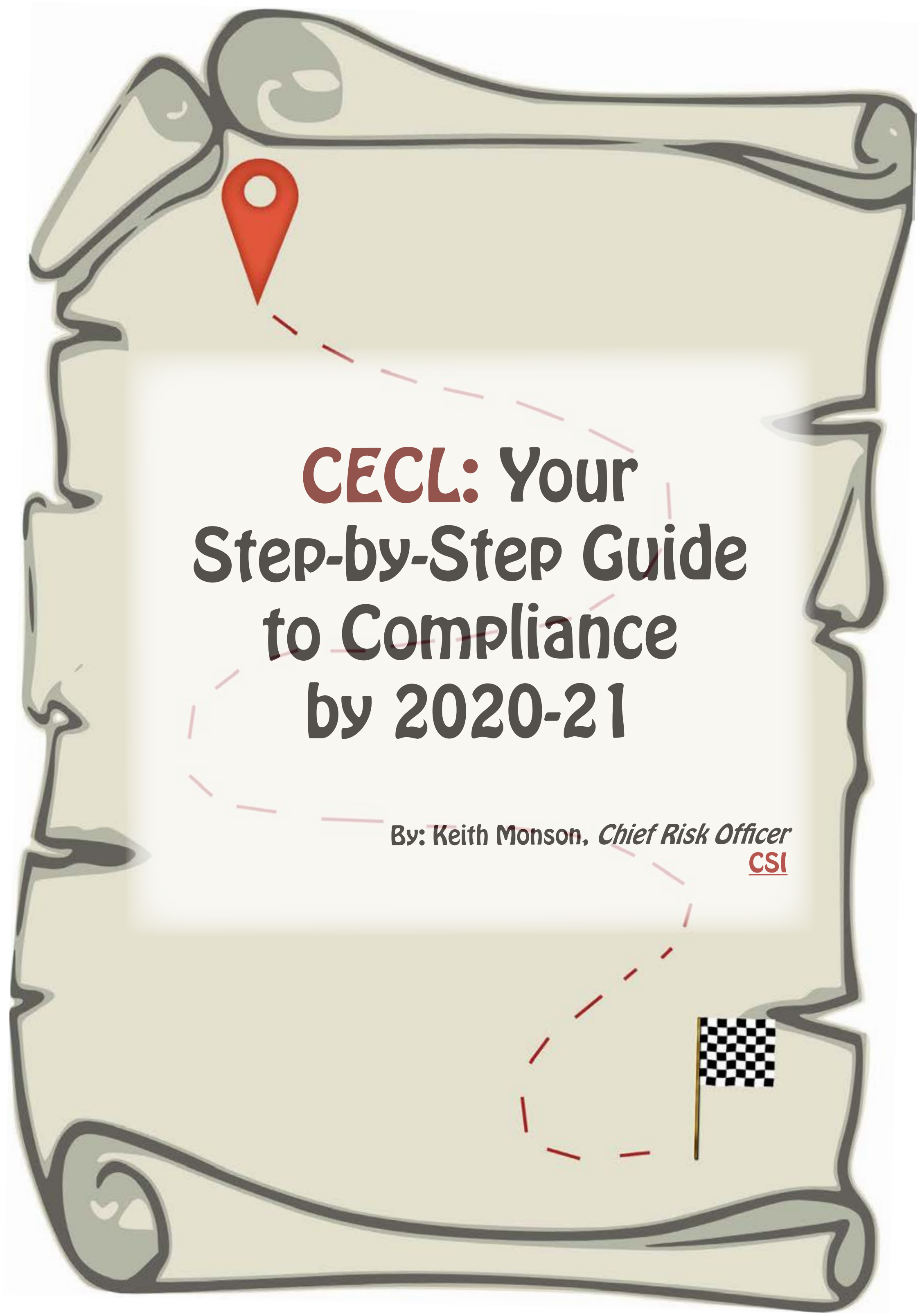
The ***Certificate of Banking Fundamentals*** program includes the following Columbus State coursework:

- Principles of Business
- Customer Service and Sales
- Personal Finance
- Composition
- Math Concepts for Business
- Negotiation
- Interpersonal Communication
- Foundations of Banking
- Business Ethics

COLUMBUS STATE
COMMUNITY COLLEGE

ADMISSIONS OFFICE
Columbus Campus
Student Central
Madison Hall - Lower Level
(614) 287-2669
(800) 621-6407 x 2669

(800) THE-CBAO
www.cbao.com



Very soon, CECL will fundamentally change how the financial industry accounts for loan loss reserves.

Currently, institutions can't record expected losses until deemed "probable." Because of this limitation, they were inadequately reserved before the 2008 financial crisis.

To avoid a disastrous repeat, the Financial Accounting Standards Board's (FASB) Current Expected Credit Loss (CECL) approach to the Allowance for Loan and Lease Losses (ALLL) goes into effect between 2020 and 2021.

Experts advise immediate action toward minimizing CECL's impact on institutions' capital and human resources.

The following guide takes your institution through implementation, one step at a time.

Step 1: Initiate Education and Planning

According to the American Bankers Association (ABA), regulators consider CECL "the biggest change ever to bank accounting." You can help control the pain, if you haven't already done so, by educating staff and planning now:

1. Assign a Team Leader and Assemble a Team
Identify a strong candidate with experience in such areas as credit risk or accounting. Familiarity with project management also is ideal. The CECL leader should build a team representing key affected areas, including senior management, loans, credit underwriting, risk management, accounting and internal audit.

2. Educate the Team and Board
Review CECL and explain its possible implications to your board and key stakeholders. Start by reviewing these interagency documents about CECL: Joint Agencies Statement and Frequently Asked Questions.

3. Create a Project Plan
Your detailed project plan should manage system and policy changes, provide training and communication, and account for contingencies.

4. Communicate with Your Core Provider
CECL relies on historical data on life of loan or life of portfolio loss rates, key portions of which reside within your core system. So,

About Keith Monson

Keith Monson serves as CSI's chief risk officer. In this role, Monson maintains an enterprisewide compliance framework for risk assessment and reporting, as well as other key components of CSI's corporate compliance program. With nearly 25 years of banking experience, he has a wide range of expertise in the compliance arena, having served as chief compliance officer for both large and small financial institutions.

contact your provider to make adjustments to the current closed-file destruction schedule. This ensures your access to CECL information.

Step 2: Address Key Decision Points

The CECL project team must consider these points to determine your institution's best course of action.

1. Data Identification
Institutions must anticipate collecting the following data—at a minimum—for individual loans, and assess the need for more granular detail: risk rating, loan duration, origination date, maturity date, loan balance, key charge-off or recovery information, and loan segmentation.

2. Data Gathering
Gather individual loan data for existing loans to build the historical picture and vintage disclosures CECL requires, including data from:

- **Core system:** determine the data available, and plan for retaining and accessing it.
- **Loan accounting and servicing systems:** determine how to retrieve additional data points captured within these systems.
- **Loan files and credit memos:** certain data points may only be available within the loan file or credit memo.
- **Other databases:** search other resources, like customer relationship management systems, to complete customer profiles.

3. Process Adjustment
The project team must adjust existing loan processes and systems to capture the CECL data more cost effectively. This includes creating consistent codes for data fields, eliminating duplicate fields, ensuring data can be accessed and transitioning to digital-collection methods.

4. Data Analysis
Decide where to store the data, be it in an Excel spreadsheet or a complex, secure database. Your institution also must determine a cost-effective way to analyze that data.

5. Portfolio Segmentation
The Federal Reserve advises to "identify the portfolio segmentation needed to implement the proposed CECL model, such as grouping assets with similar risk characteristics." These segments should consist of the same product or collateral type, interest rate, or other shared risk characteristic. The agency adds that loan portfolios should be accounted for at the most granular level, since granular segmentation equals better loss estimates.

6. Economic Variables
Institutions also must include national and local economic data when calculating CECL. Those that are readily available, including unemployment rates, housing prices and commercial real estate prices, will prove the most helpful.

7. CECL Methodology
FASB doesn't require that a specific methodology be used to calculate the ALLL under CECL. The interagency joint statement explains "allowances for credit losses may be determined using various methods. Additionally, institutions may apply different estimation methods to different groups of financial assets."

Methodologies include:

- Average charge-off method
- Vintage analysis
- Static pool analysis
- Roll-rate method or migration analysis
- Probability of default
- Regression analysis
- Discounted cash-flow analysis

Step 3: Validate and Test Your Decisions

Follow the change management best practice of Plan, Do, Check, Act.

1. Validate Chosen Methodology
Ensure your methodology meets all CECL requirements and provides the most accurate reserve estimates. The former will indicate your institution's compliance readiness; the latter helps minimize the financial impact from CECL. If issues arise, adjust and retest.

2. Run Parallel ALLLs
Calculate both the current ALLL model and the newly devised CECL version through the transition period, to help with budget decisions in preparation for CECL's effective date.

3. Estimate Capital Impact
The Federal Reserve suggests institutions "be proactive in estimating the potential impact to their regulatory capital ratios to assess whether they will have sufficient capital at the time that the CECL model goes into effect."

Step 4: Transition to CECL by 2020-21

Institutions that follow this multi-step plan, making use of the extended time frame and system-driven resources, will reap many benefits, including balancing CECL-related tasks with other responsibilities, streamlining data analysis and ensuring their CECL rollout meets regulatory expectations.

Using this background information and our four-step plan, you have the tools to determine how to implement CECL based on your institution's size, loan complexity and budget.

CBAO Insurance Agency's Comprehensive Employee Benefits Program

Powered by GRA Benefits Group

Community Bankers Association of Ohio
CBAO Service Corporation
CBAO Insurance Agency, Inc.

Our **Comprehensive Employee Benefits Program** is an all-inclusive insurance program that enhances the efficiency of your community bank with a platform to aggregate your revenue, members, products, and resources. ***Partnering with CBAO Insurance Agency gives you a clear and painless insurance program.***

Reduced Costs

Working with us means lower employee benefit premiums and reduced employee costs through commission sharing, when paid to a legally licensed entity.

We can compare all available plan and carrier summaries including premiums and fees for your team's consideration.

Our **level funded plan** is a unique medical offering for banks who are looking to control health care costs. Take advantage of member-only rates for life, AD&D and dental.

Technology

Our Program gives you a customized **Internet Employee Portal**. This software captures all necessary data for complete profiles on each employee. Additionally, it tracks:

- All bank HR forms
- Benefits selection & demographic verification
- E-signatures on all required docs
- Benefits statement
- ACA reporting

Compliance = Covered

Our Program's online benefits administration system automates and tracks compliance requirements to streamline your review and audits. Also, working with us ensures your Protected Health Information (PHI) is HIPAA compliant. Our partner, GBA, has taken the following measures to ensure your PHI is protected:

- Physical, administrative & technical safeguards
- Risk assessment
- Annual training of staff
- Monitored BA

Work with Your Current Carrier

Our Program supports all carriers through our partner who works with nearly 800 groups and has over 6,850 contracts. If you like your current carrier, there's no need to leave – we'll just help simplify the process through:

- Open enrollment
- Eligibility to carriers & COBRA
- Medicare / U65 guidance
- Consolidated billing reconciliation
- Payroll processing
- Employee inquiries
- Claims assistance

Team Support

GBA has a team of seasoned employee benefits representatives on-call to support your team. They're available to answer employee questions, walk through problems, liaise with you and your provider, notify you of red flags, follow-up on outstanding issues, and more! It's your dedicated support network at your fingertips.

(614) 846-2170 | jjsarosy@cbao.com

Coming and Going

Supply of government agency debt remains low

Jim Reber
President & CEO
ICBA Securities
jreber@icbasecurities.com

Answer: The last year before 2015 that aggregate outstanding debt of U.S. government agencies totaled less than $2 trillion.

Jeopardy (double entendre) question: ***What is 2000?***

Yes indeed, the supply of debt issued by your favorite agencies has continued to dwindle in total. These bonds have for decades been a staple of well-structured community bank investment portfolios. As your industry's profitability continues to grow, along with your bank's footings, this may present some challenges for you portfolio managers out there.

Interestingly it's not a uniform retreat by all issuers. In fact, several of the more familiar names have been growing. But as supply/demand forces collide to help define fair value, it may be useful to review what was, and is, the market for these instruments so that an informed community banker can make some good decisions on the behalf of his or her financial institution.

SIGNIFICANT CONTRIBUTION

It is easy to understand why this investment sector is popular. Agency bonds are simple to analyze, highly liquid, readily pledgeable, and available in virtually any maturity and callable configuration. Did I mention 20 percent risk-weighted? Their yields will of course be higher than a comparable Treasury bond, with the spread being a function of their maturity and call features. At the moment, a five-year agency that can be called in two years has an incremental yield of about 20 basis points (.20 percent) over the curve.

Still, the supply issues coupled with community banks' growing familiarity with mortgage products and increased need for tax-free income have caused the average bank's allocation to agencies to shrink. Ten years ago, about 30 percent of a typical community bank portfolio was comprised of these agencies. Today, the number is around 10 percent. Nonetheless, 10 percent of anything is significant.

IN THE HEADLINES

What's old news at this point is the two housing government-sponsored enterprises' (GSEs') status in legal limbo. Technically both Fannie Mae and Freddie Mac are in a conservatorship, and their earnings are being swept into the Treasury coffers to compensate the taxpayers for the risk we assume as stewards. Accompanying the conservatorship is a requirement that both GSEs shrink their mortgage holdings to $250 billion apiece by the end of 2017.

As their mortgages owned have shrunk since 2008, so have their borrowing needs. Freddie Mac, for example, cut its outstanding securitized debt by over $200 billion between 2012 and 2016. Fannie Mae's debt dropped by almost $300 billion in that time. This is the major cause of the decline in the quantity of agency debt through 2016. (Total outstandings of all agencies for both 2015 and 2016 are just below $2.0 trillion.)

ON THE WAY UP

Other agencies' borrowing needs are increasing. The largest and most visible is the Federal Home Loan Bank (FHLB) System. This consortium of regional banks makes collateralized loans to "members," which are mostly FDIC-insured depositories. In large part, loan demand at the members' institutions determines the size of the advance book of a regional FHLB. The corollary to that is the FHLBs need to borrow most of the dollars required to match-fund the advances.

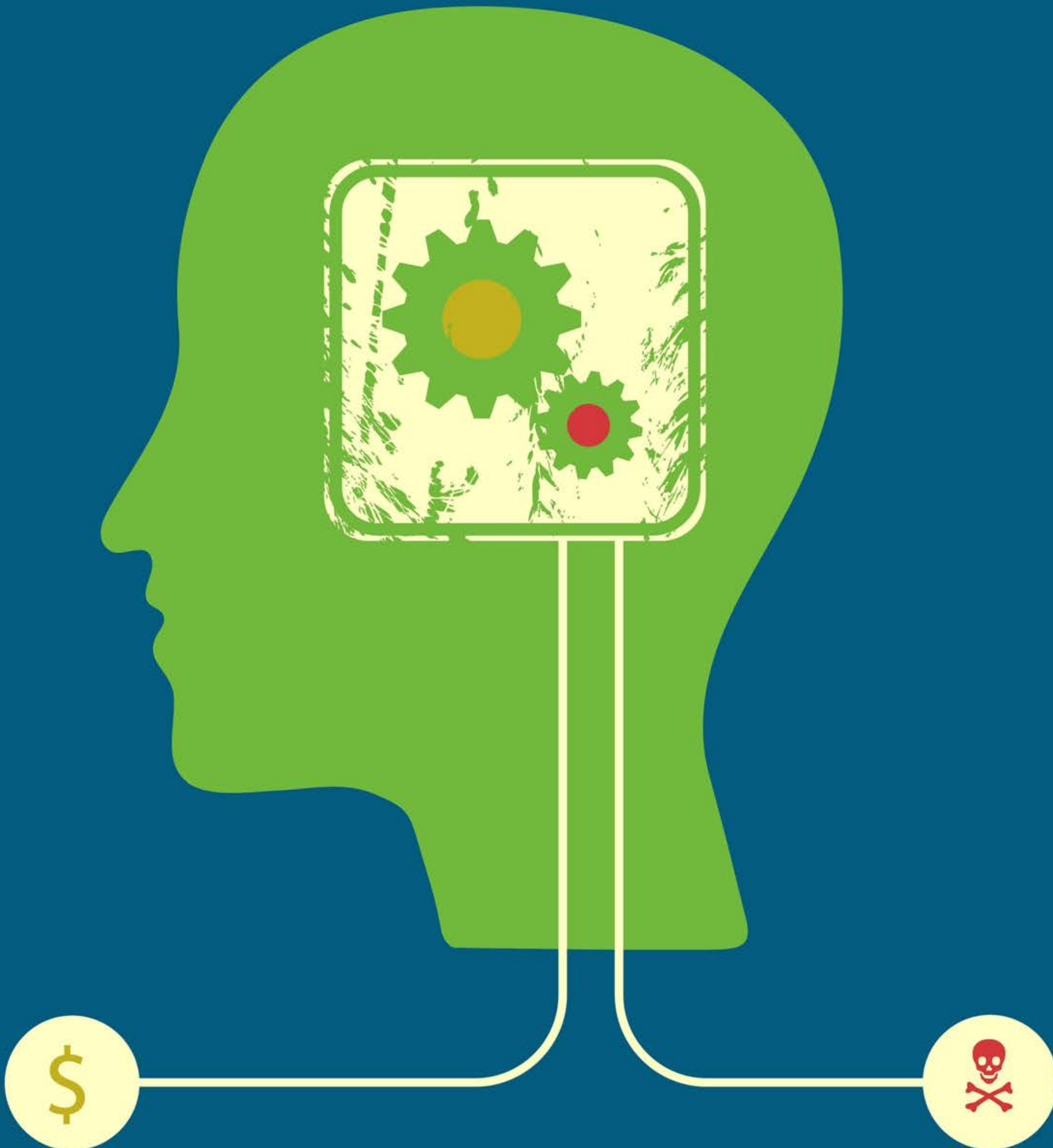
FHLB debt peaked in late 2007, just as the housing bubble burst. Between 2007 and 2011 advances and debt declined each year. Since then, however, FHLB borrowings have increased by about $300 billion, which partly replaces the falloff in Fannie/Freddie supply.

PROOF IN THE PRICES

Accompanying the shrinkage in the supply of securities was the financial crisis of 2008-2009. As we well know, interest rates were stuck at historic lows for the better part of the last 10 years. Usually, as interest rates decline, the yields on "spread product"—everything except Treasuries—will fall at a slower rate. Stated another way, spreads tend to widen.

That didn't happen on agencies between 2008 and 2016. And I must say that vindicated my faith in a free-market system in which informed buyers and sellers, and supply and demand, determine prices. The need for, and attractiveness of, these issues meant that prices rose with the benchmark Treasuries even through 500+ basis points of monetary easing.

Agency debt supply seems destined to be stable, but not grow, in the foreseeable future. As we engage a year in what appears to be in a rising rate scenario, it will be interesting to see if spreads tighten on agency debt. Since they are still at historic lows, there seems to be little room for further spread shrinkage. These are all arguments for your community bank maintaining a suitable allocation to the government agency sector. ●



The Two-Headed Technology Monster

By: Gary Sheehan, *Chief Security Officer*
ASMGi

Community banks are facing a two-headed monster when it comes to IT: 1. Sensitive data has never been under such a direct attack and 2. banks are facing intense pressure to control costs and reduce head count, not increase it.

With so many requirements to meet on information security, privacy, and disaster recovery, many community banks do the best they can and sweat through audits to see if they have to take additional action. According to an American Banker October 2016 report, more banks are eager to reduce head count to help the bottom line. Many community banks are finding ways to do more with a tight budget when it comes to internal IT staffing.

Key Security Needs

While the financial services industry has always been a leader in security and IT; technology changes and the technology demands of the consumer will continue to rise, which means so will the demand for IT and security expertise.

Increases in malware, ransomware, viruses, phishing and social engineering pose threats to banks, small and large.

So what can a financial institution do to increase their security posture while controlling costs?

- **Invest in education:** Investing more in training your organization in security procedures can help maximize IT investments. Whether that is broad education or specific certifications, investing in training improves the employee security awareness and develops the security expertise an organization relies on for informed decision making. Security training and education can also increase the bank's credibility with external auditors and bank examiners.
- **Review your access controls:** You do not need to invest in technology to do this. Start taking inventory of current access controls within your organization. Review your internal controls and ensure the right people are permitted to access the right information.
- **Create a Written Information Security Program (WISP):** Document your comprehensive security plan, get key stakeholders sign off and track changes over time.
- **Assess compliance status:** Before facing an auditor, check for compliance with FFIEC and other related agencies and your own information security policies.
- **Perform an IT risk assessment:** Being aware of the risks is the first step to managing your risks. Ask questions and document your findings. If you have the right expertise, it can be done in-house. Outside help is generally not a large financial commitment and can provide an objective opinion.

Depending on your maturity, your IT staff may be able to perform some or all of these functions. But if you consider reaching out for outside help, either as an additional employee or a third-party firm, be careful in your selection.

Vendor Selection Look Outs

Any vendor you use that has access to your network or data can become your weakest security link. That includes an IT and security vendor, but it also includes the janitorial service, HR or any other vendor.

So what should you look out for?

It's important to find a vendor that acts as a true partner, not just selling what you need, but is proven, capable and compliant. Some things to consider:

- The firm should practice what they preach. Ask for their WISP or security plan. Ask what frameworks that firm is compliant in.
- Do they ask only questions about your IT systems or do they also want to understand the greater business goal? A good partner will help you prioritize based on your business.
- You don't want to be a test case. Make sure they have experience in the financial service industry. Experience with clients larger than you can be a good sign: The larger the organization the more stringent the security needs and standards.
- Look for a vendor that can address IT, Security and Applications needs. They're all integrated, and you don't want to ignore a vital piece of your security structure.

Your IT and security partner should be an extension of your team and present a solution that meets the unique needs of the organization.

Tackle the two-headed monster in a responsible way that makes you feel comfortable. At the end of the day, protecting customer information goes beyond regulations, audits and rules. It comes down to keeping the trust you've earned with your customers.

That trust is what will lead to strong future business. •

About Gary Sheehan

Gary Sheehan is the Chief Security Officer at ASMGi, a Cleveland-based technology firm that provides information security, IT/Cloud services and software development. He also leads Northeast Ohio's largest and longest-standing information security conference, the Information Security Summit.

New Design Trends to Traditional Banking within the Cincinnati Market

Jeff Klump,President
K4 Architecture + Design

The K4 team couldn't have been more thrilled when CBAO announced that the 2017 annual convention would be held in our hometown of Cincinnati, OH this summer. While we look forward to visiting and networking with our fellow CBAO members, we'd like to share a short list of new community bank design trends that have been implemented within the Cincinnati market by the K4 design team. Should time permit, feel free to stop by and check them out while visiting the Queen City!

First Financial Center
435 Sycamore Street
Cincinnati, OH 45202

Located in downtown Cincinnati, this contemporary micro-branch features on-street access and public frontage in the First Financial Center corporate headquarters. This location is only 890 square feet with two sit down teller pods, a private office, and a waiting area. The ATM and night deposit in the main entrance lobby space can be separated for 24-hour access with full height glass doors, resulting in an ATM only area offering "after business hours" banking with entrance granted via the customer's ATM card. This branch is a great example of the use of branded environmental graphics that are visible form the public streets through full height exterior glass walls, conveying brand consistency amongst other Cincinnati locations and solidifying the First Financial brand within the Cincinnati market. This branch concept works well when affiliated with a Main Office within the network, and is instrumental in increasing your branch network while decreasing the footprint. If you are seeking to lessen the number of your branch staff as well as operating costs, this may be a good direction for your bank, but you must also be willing to consider technology implementation.

Northside Bank & Trust Co.
4125 Hamilton Ave.
Cincinnati, OH 45223

Located within an urban, trendy, and revitalized area in close proximity to downtown Cincinnati, this branch features two teller pods manned by Universal Bankers to provide a personalized banking experience. Also, incorporated is the use of vibrant colors and environmental graphics to cater to the local younger demographic, and walkability of the neighborhood. There is even a dog-friendly space within branch, which illustrates the design of the branch focusing around the community experience, as well as catering to the unique demographics of each branch within a network. This branch transformation concept can work in urban as well as rural areas that are pedestrian friendly, and support business development efforts of attracting in new millennial business.

Forcht Bank
502 Madison Ave.
Covington, KY 41011

This Forcht Bank loan production office is a renovated building at the site of Covington's former Greyhound Bus station, and the bank's first location in Kenton County. This location features full height glass walls and doors surrounding the offices to create an open and inviting environment, and the use of Environmental Graphics visible from the busy public street. The design challenges included working with and preserving the original tin pan ceiling, as well as designing to fit within a long and narrow space. It was also important to tie the design of this new facility and partner the Forcht Bank legacy to that of the historic Madison district in Covington, while presenting a modern and updated feel. It was a complete departure from the traditional design of other Forcht Bank locations. This non-traditional facility features interactive, open areas for loan processing with all transactions conducted by an Interactive Teller Machine in the front lobby, and all new accounts opened online. The ITM is located in an open full glass vestibule that will allow after-hours access even after the office is closed. This location is a great example of ITM implementation for transactions, while shifting the design of the facility to a more retail oriented space and creating opportunities to cross-sell and promote additional services. In addition, since it is not considered a "branch," no regulatory approval is necessary. This concept works well in both urban and rural markets, attracting in millennials seeking auto and home loans, and offering the ability to process transactions remotely.

Park National Bank
3825 Edwards Rd #520
Cincinnati, OH 45209

This Park National Bank regional office is located on the fourth floor of a multi-tenant office building in the high profile, public area of Rookwood Commons in Cincinnati and is a regional wealth management office. The majority of clients serviced here are business or special accounts, with incorporation of full-service branch banking capabilities built into the front receptionist space and workstation. The branch features open and modern spaces, offices, and conference facilities that veer away from the design of a traditional bank branch. It is located in a modern building and the surrounding tenants have updated spaces. The overall design goal was a warm, but modern interior. The design challenge was working within an irregular, long and narrow, "L"- shaped space while also designing for future expansion and to accommodate added services and an expanding client base. The blue corporate color was retained and this branch will be considered a leader for future prototypical development. This branch illustrates how an existing property can be repurposed to a new role of the facility itself within the community. This concept is best applied when centrally located to areas with a large concentration of high net worth, in older and more established communities.

As Community Banks begin the arduous process of rethinking their branch network and the distribution of their services, they need to consider new and different approaches to traditional banking concepts to differentiate themselves. Whether considering a new location, expanding into a new market, or repurposing an existing branch; it is time to get creative and innovative to adapt branches to the demographic markets they serve. At the forefront of these branch transformation strategies are brand consistency, focusing the design around the community experience, shifting the design to be more retail-oriented, and creating environments to encourage people to come in. Although the banks mentioned in these articles are located in more urban areas, these concepts can be applied to almost any market if you are willing to get creative and accept the challenge of stepping outside of your comfort zone. •

Jeff Klump is President, Principal and Founder of K4 Architecture + Design in Cincinnati. He has more than 30 years of architectural and program management experience, specializing in retail development and financial markets, and leading over 1,500 projects. Jeff is affiliated with the American Institute of Architects and the National Council of Architectural Registration Boards. He earned a Bachelor's degree from the University of Cincinnati.

Jeff can be reached at (513) 842-5400 or jklump@k4architecture.com

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