THE OHIO COMMUNITY BANKER

The Official Publication of the Community Bankers Association of Ohio

First Quarter 2021

Exclusively Increasing the Value of Independent Financial Institutions Since 1974

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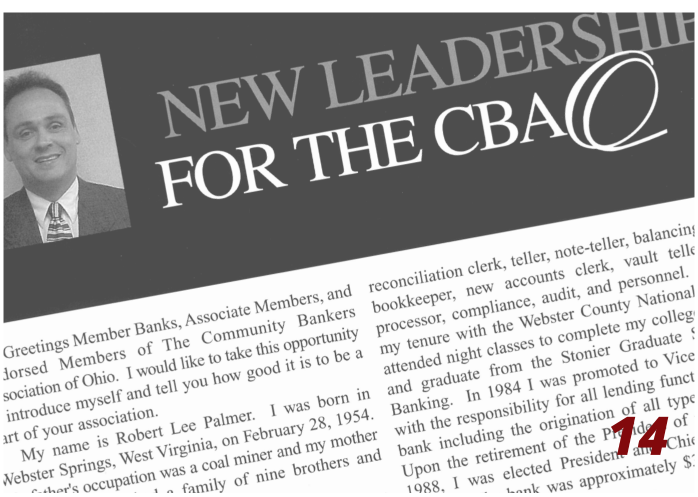

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CBAO Service Corporation
CBAO Insurance Agency, Inc.

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1st Vice Chairman **Tracey Craig** – President and Chief Executive Officer, Woodsfield Savings Bank
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LET US DISPEL THE MYTHS (PART 2)

Robert L. Palmer
Chief Executive Officer

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We continue our 2-part series (part 1 was published in *The Ohio Community* Banker Fourth Quarter 2020) dispelling the myths that will result in increased engagement by our industry with members of the Ohio General Assembly, Congress, state and federal regulatory agencies, and the media, in Columbus and Washington DC, and increase the awareness that community banking is a distinct brand. Not a bank-a community bank.

Myth - *My community bank cannot support CBAO FED PAC.*

False. Each year CBAO conducts a silent auction during our Convention and Trade Show benefitting the CBAO FED PAC. Items that are available for purchase are contributed by industry stakeholders or they can elect to have the monies contributed be used to defer the cost of the auction. Either way benefits CBAO and CBAO FED PAC. Items purchased at the silent auction must be with personal funds.

Myth - *My attendance at Community Banking Day-C'BUS and/or CBAO's DC Fly-in does not help my community bank or our industry.*

Wrong again. While CBAO engages often with members of the Ohio General Assembly and Congress they want to hear from their constituents. There is tremendous value in the face-to-face contact that community bankers have with elected representatives and that increases CBAO's ability to have more focused conversations regarding legislation. The development of a relationship between a community banker and an elected representative can be positively multiplied for all in the industry.

Myth - *CBAO FED PAC dollars will not get a legislator's attention.*

True and False. Those who hold public office need dollars to finance their campaigns. If the number and amount of total contributions to their PAC are consistent and meaningful it will get their attention. Remember we seek face-to-face access with elected officials to tell our story first-hand. If we cannot get that access, then our message becomes somewhat diluted or not heard at all. CBAO FED PAC supports those who have proven their understanding and support of those issues that uniquely affect our industry.

Myth - *I give an individual contribution to my elected official(s) so I do not need to contribute to CBAO FED PAC.*

False. Individual contributions are fine but collectively contributions tend to be of a larger dollar amount and cover a broader group of elected officials. Also, individual contributions do not increase CBAO's or other community bankers' ability to have access.

Myth – *CBAO FED PAC contributes to all state and federal elected officials.*

False. CBAO FED PAC dollars are limited thus we must choose wisely where to best invest these dollars. While we would like to offer financial support to many of our state and federal officials that is not currently possible. An increase in CBAO FED PAC dollars would be distributed to gain increased access to elected officials.

Myth – *CBAO FED PAC contributes to all state and local candidates.*

False. To maximize the dollars that are available to contribute we must focus on those who are already in office. CBAO FED PAC rarely contributes to a Freshman candidate for office due to financial constraints and the lack of familiarity with their voting record. Many times, we do financially support incumbents or those that are seeking office that we have interacted with or supported in the recent past.

Myth - *Contributions to CBAO FED PAC exceed what is needed to increase our industry's access and influence.*

False. Tragically we fall substantially short in the number and amount of contributions needed to have the level of influence we desire. If every member of Executive Management and Board of Directors of Ohio's community banks would contribute annually to the CBAO FED PAC, we would have the dollars needed to broaden our support for currently elected state and federal officials as well as state and local candidates for office.

Myth – *The CBAO Silent Auction that is held annually nets a large sum of money for the CBAO FED PAC.*

Again False. The net proceeds of the CBAO Silent Auction represents less than 30% of total annual contributions. The primary benefit of the auction is that monies can be contributed by the community bank to either defray the cost of hosting the event or the purchase of auction items that must be bought with personal funds. A community bank can make a gift donation in lieu of dollars that would be purchased by a bidder thus financially benefiting the CBAO FED PAC.

After reading parts 1 & 2 of *Let us dispel the myths* we hope you have a clearer understanding of the increased value that will be gained if those in our industry would engage, increase engagement, and contribute to the CBAO FED PAC, both personally and corporately.

Remember that YOUR engagement + OUR exclusive advocacy + CBAO FED PAC dollars is the winning formula for our industry now and into the future.

Best wishes,

Bob

ONE AT A TIME – COMMUNITY BANKERS MAKE THE DIFFERENCE

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As we begin another new year, 2021, we look forward with renewed optimism at the opportunities that have yet to be achieved in front of us. But before we look ahead, let's take a look back and celebrate the many accomplishments attained in 2020.

It can be easy to overlook the many milestones from last year. Community bankers across the state and nation were fully engaged in meeting the needs of their employees, customers, and small business owners in any way possible while the landscape and work environment were changing daily. Community bankers had a measured, and appropriate response to help those in their communities. Their passion and commitment were unwavering.

Ohio community bankers distributed over 18 billion dollars in Paycheck Protection Program funds directly into their local communities benefiting nearly 150,000 small business owners, ranking Ohio 7th and 8th respectively in the nation. Additionally, 87 % of these requests were for less than $150,000 with an average of $101,000. Whether through PPP or other valuable resources and charitable contributions to their local communities, community bankers across the state rose to the occasion and provided relief in a critical time of need. FDIC Chairman Jelena McWilliams stated community banks are the "first responders" of the economy, demonstrating "what cannot be replicated by an online presence alone or larger banks."

Staying true to our mission, "Advocating for the independence of Ohio's community banks," CBAO had many successes of our own while providing essential support and resources for our community banking industry.

In spite of travel limitations for many in place throughout most of the year, the CBAO Team was actively engaged in communicating with the Governor's office, State of Ohio, and U.S. Legislators on matters of most significance for our industry. This included exclusive community banking carve-outs, priority, and acknowledgment for their ability to respond and deliver meeting the needs of our industry. Our financial system is strong and healthy because of the breadth and diversity provided by community banks.

Additionally, we celebrated a judicial win for Ohio's community banks. On November 3rd, 2020, the Supreme Court of Ohio unanimously ruled reversing the decision of the 11th District Court of Appeals in Portage County reinstating the trial court's decision and judgment in favor of Sutton Bank, therefore upholding the cognovit clause. We are grateful for the many industry stakeholders that provided support to this important case upholding the 1974 law and long-standing precedent.

CBAO University provided numerous time-sensitive calls and webinars regarding the CARES Act, foreclosure and forbearance, PPP, work from home guidelines, and many other topics relating to the ever-changing environment and workplace. And although 2020 continued to throw curve balls at us, CBAO University met the challenge and hosted over 900+ webinars and over four dozen classes in-person or in a hybrid setting. Our goal is to meet our community banks, wherever they may be. We are continuing to expand our curriculum guide with new training programs for branch managers and future department leaders.

In 2020, CBAO- SC, and CBAO-IA launched a monthly webinar series for CBAO Partners to connect and share their services with CBAO Financial Members. This program has been very well received and has helped us expand the value of membership for all community stakeholders. CBAO has over two dozen partners who utilize the strength of the Association to connect with the community banking industry. There were also several new CBAO-SC Partner additions last year in the areas of health savings accounts for small business owners, office supplies, and check and marketing services.

The CBAO team is passionate about serving community banks, as well as the communities that these banks serve. To that end, we recognized the financial hardship that many of the communities are facing. CBAO donated $4,000 to multiple food pantries across the state of Ohio last year.

When faced with the many different challenges that 2020 handed us, it could be easy to overlook our collective accomplishments. When we look back, I hope that we can recognize the hard work that went into recreating our “normal” to continue providing opportunities for growth, education, and services. Community banking is stronger as a result of these accomplishments.

Over the last ten years, CBAO has donated $9,000 in the name of the Ray Campbell Scholarship to a graduating high school student whose parent/guardian is employed by a community bank. The application process is currently open til April 15th and recipients will be notified in the 2nd quarter of 2021.

As we look into 2021, there is so much to be excited about! Forums are now being offered and can be attended in person and online. Additionally, we look forward to seeing everyone again soon at our 47th Annual Convention which will be hosted onsite in Columbus August 10-12!

CBAO is passionately committed to providing educational opportunities to community banking staff and to developing innovative products and solutions that provide independence to the community banking industry. There is so much to look forward to in 2021! I encourage you to engage CBAO to explore how we can help you.

As we work together, we rise together.

Advocating exclusively for Community Banks in the state of Ohio since 1974

The secret to getting ahead is getting started.
– Mark Twain

INTRODUCING CBAO'S 2021 CHAIRMAN: SCOTT MCCOMB!

Scott McComb
Chairman, President and CEO
Heartland Bank

We are excited to have Scott McComb, Chairman, President and CEO of Heartland Bank, leading CBAO as 2021 Chairman. We asked Scott for some insight on the association, the industry, and his life & family. Enjoy getting to know our chairman a little better!

HOW DID YOU GET INTO BANKING?

By accident. My father Tiney was a career community banker and started Heartland in 1987 after running a successful community bank in Columbus from 1967 – 1985. When he started Heartland with the purchase of the Croton Bank, he encouraged me to start my own business. I became an entrepreneur at age 21 in the electronic security industry. This led to having a few companies at the same time. I sold the security to Vector Security in 1997 and worked for corporate America for a year. Finding corporate America a bit standoffish, I resigned to start another business. It was May of 1999 when I approached Tiney to see if he needed any help at Heartland. The rest is history.

WHAT ROLE HAS BEEN THE MOST REWARDING FOR YOU?

I have worked in most areas of the bank over my career and each department or function had its own flavor. I'll have to say being President and COO was a good gig. I had authority to run the bank pretty much as I pleased, but also had a very wise CEO / Chairman to ask questions of when I didn't know the answer.

WHAT DO YOU LIKE MOST ABOUT COMMUNITY BANKING?

The ability to change lives for the better.

WHAT HAS BEEN THE KEY TO HEARTLAND BANK'S LONG-STANDING SUCCESS?

Sticking to our shared values, thus weaponizing our culture of providing value. Heartland Shared Values are:

- Superior service is our highest priority
- Productivity is an integral part of our corporate strategy
- Team players receive the highest rewards
- Quality is rewarded as well as quantity
- Rewards will include advancement, recognition and/or incentive compensation
- Through access to accurate information, we will strive to keep ourselves and our customers informed
- We will constantly seek to improve how we are perceived by our customers
- We will empower our employees to perform their duties in a responsible manner
- We will seek to know our cost of doing business
- We encourage the exploring of new ideas
- Our business is to provide customer satisfaction profitably
- We value loyalty, honesty and integrity in our relationships
- We are committed to the enrichment of our local communities through our involvement

WHAT IS THE BIGGEST CHALLENGE YOU THINK THE INDUSTRY IS FACING?

Aging leadership teams and Board of Directors. We need to re-energize community banking into a Can-Do mission. However, that conversation is a bit longer than this interview.

WHY IS CBAO VALUABLE IN HELPING TO OVERCOME THIS AND OTHER CHALLENGES?

CBAO ONLY represents the interest of Community Banks. Their survival is dependent on the information, education, and advocacy that is so greatly needed to differentiate community banks from the big banks / credit unions.

WHAT WOULD YOU LIKE TO ACCOMPLISH AS CHAIRMAN THIS YEAR?

I follow in the footsteps of many great leadership bankers who have led the CBAO. I would like to re-energize and enable the community banks of Ohio to realize that having a successful bank is not the same to everyone and you can be successful in this new digital age. The technology exists, and they have the power of relationships to leverage with the digital delivery, at the speed of trust.

AS 2021 CBAO CHAIRMAN, WHAT REQUEST WOULD YOU MAKE OF YOUR FELLOW OHIO COMMUNITY BANKERS?

Carpe diem! "Seize the day!"

Challenge your boards and management teams to explore all the vast opportunities that exist and stop making excuses about the competition, their location, or other show-stopping factors and get on with winning. This industry, contrary to popular belief, is not about price, rather value delivery.

WHAT ARE YOU MOST EXCITED ABOUT FOR 2021?

Getting back to helping clients and communities grow instead of surviving.

WHAT ARE YOU MOST CONCERNED ABOUT FOR 2021?

A smooth return to normal from Covid-19.

WHERE DID YOU GO TO COLLEGE?

Ohio State, both times. Started in 1985 majoring in High Street, finished in 2009.

HOW DID YOU MEET YOUR WIFE?

Amy's family and mine are close friends from our hometown of Grove City, Ohio. I was forbidden to date my parent's friends' kids because I was promiscuous as a youth. Although we knew one another in High School, we did not reconnect until her mother's Christmas party in 1988. I decided to go because I thought there would be free beer there. Amy and I were the only two young people there and we visited with one another all evening. I asked her out the next day, and we have been together ever since.

WHAT DID YOU WANT TO BE WHEN YOU GREW UP?

A Marine

WHAT WAS YOUR FIRST JOB?

Farm work was my first cash job, cleaning stalls, bailing hay, just a regular farm hand. My first W-2 job was at Rax Roast Beef.

Scott's daughter, Kailyn, (above) represents the third generation of McComb bankers at Heartland. His son, Parker, is a golf pro on staff at Scioto Country Club and Jupiter Hills Country Club in Florida.

WHERE IS YOUR FAVORITE PLACE TO VISIT IN OHIO?

I enjoy the water, Sandusky, or Buckeye Lake.

WHAT IS YOUR FAVORITE CHARITY?

Amy and I have so many that we support annually. The James Cancer Hospital and Solove Research Institute has been our choice for difference-making these last several years via the Buckeye Cruise for Cancer.

WHAT WOULD WE BE SURPRISED TO KNOW ABOUT YOU?

I have my bareboat certification to Captain a 55ft Sailing Catamaran.

IF YOU WERE TO BUY A PLANE TICKET TO ANYWHERE IN THE WORLD, WHERE ARE YOU HEADING?

Anywhere in the Caribbean where I can crew / Captain a sailing vessel.

WHAT ARE 3 THINGS STILL ON YOUR BUCKET LIST?

Teaching my daughter and the rest of my team everything I know about the banking business.

Learning how to truly relax.

Buy the Big Boat!

CBAO PARTNER INTERVIEW

GETTING TO KNOW FINET

CBAO Partner and Strategic Sponsor

CBAO is excited to announced FiNet as the exclusive Strategic Sponsor for CBAO's premier networking and educational events! Serving as a CBAO partner since 1997, FiNet provides customized merchant services programs to community banks across Ohio.

HOW/WHY DID YOU GET INTO ONLY SERVING COMMUNITY BANKS?

We serve community banks exclusively because we ourselves operate with much the same mentality as a community bank. We've got a small, dedicated staff that takes immense pride in building relationships with our customers, both our bank partners and their business merchants. Just like our community bank partners, we focus on meeting the needs of the people behind the businesses, not just meeting a quota. That means being an active and available resource at every step in the merchant services process.

WHAT DO YOU ENJOY MOST ABOUT SERVING COMMUNITY BANKS?

Community banks are the lifeblood of the banking industry — a vibrant and diverse body serving every segment of our population. By design, no two banks are the same — they each reflect the community they serve. Over the life of our company, our team has had an opportunity to meet so many of the dedicated bankers behind these institutions. And we've also had the opportunity to visit many communities that we may have otherwise not seen — from large metropolitan areas to small rural towns, both here in Ohio and throughout the country. The past year has forced many of us to adjust our way of doing business, but we're looking forward to getting back out to meet more of Ohio's devoted community bankers.

WHAT HAS BEEN THE MOST REWARDING...?

What's been most rewarding for us is the relationships we've formed and maintained throughout the years — some dating back well over twenty years. Several of our bank partnerships pre-date the internet, email and smart phones. We had to do things the old-fashioned way — phone calls, in-person visits and maybe even a few faxes. But we've still got a strong relationship with those banks to this day. Along those lines, we're proud to say that our partnership with the CBAO extends all the way back to 1997, which has been incredibly valuable in keeping us attuned to the pulse of community banking in Ohio.

WHAT IS THE BIGGEST CHALLENGE THAT OUR INDUSTRY HAS IN THE NEXT 3-5 YEARS?

If you would have asked this question a few years ago, certainly nobody would have predicted the challenges that we all faced in 2020. We're all more aware now of the constant need for flexibility and the ability to adapt to the unknown.

(cont. page 12)

Serving Ohio's Community Banks and Your Business Customers

For Over Two Decades

FiNet
a network of solutions

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

Partnership established in
1997

50+
CBAO Member Banks have partnered with FiNet over the last *twenty-five years*

Serving
75%
of Ohio's population

Proudly providing **MERCHANT SERVICES** to CBAO Banks in *more than* 1/2 of Ohio's eighty-eight counties

With
1,496
PROCESSING ACCOUNTS
for our CBAO Bank Partners*
(...AND COUNTING!)

including
ALL BUSINESS TYPES
- RETAIL
- RESTAURANT
- NON-PROFIT
- ONLINE
- & MORE!

= *Millions*
of Ohio customers served

*Merchant accounts associated with CBAO member banks processing with FiNet as of November 2020.

FiNet's Merchant Services Program offers our bank partners:

- *Control and flexibility*
- *No liability*
- *Guaranteed revenue*
- *Industry expertise*
- *Dedicated service and support*

plus

CBAO Member Banks receive an additional 5% on your monthly revenue stream.

Merchants of CBAO Member Banks receive a 20% discount on all equipment purchases.

For more information call 800.487.5577 or email cbao@finet.net

7355 California Ave., Boardman, OH 44512 | 800.487.5577 | finet.net
FiNet is a registered ISO/MSP of BMO Harris Bank NA

As we move into a post-Covid world, it's undeniable that technology will continue to become even more ubiquitous in every aspect of our lives, including how we do business. It's very clear that those who don't embrace technology at a fundamental level will not survive in a marketplace where consumers become more tech-savvy by the day. And those consumers expect that same level of savviness from the companies with which they do business. No matter the market or the demographics of the consumers, smart solutions will be the expectation, both for the payments industry and for community banking customers in general.

A lot of companies have been kicking the can down the road for a while now, but the time to take action is here. And the challenge that faces them in the next 3-5 years is recognizing that, accepting it as the way forward and coming up with a plan to make it work.

WHAT ADVICE WOULD YOU SHARE ABOUT GETTING TRACTION WITH A MERCHANT SERVICE PROGRAM?

No two programs are ever the same, so there's never a "one-size-fits-all" approach to guarantee success. That's why we build our program around flexibility. We don't impose a program on you, we work with you to get to know your customers and determine a strategy that will work best.

That said, our experience has told us that there are a few things that can be helpful. On new accounts, timing is vital. As a new commercial loan or business checking account is opened at your bank, that's the time to cross sell merchant services. Waiting until later often ends with customers already under contract elsewhere without even knowing you even had a product to offer.

Similarly, making sure your merchant services product is clearly visible and easy to find on your website is also important. It's the first place your customers will look when they are shopping for new service and it is surprising how often it can't be found on a bank's website. If it isn't listed or they can't find it, they're going to go elsewhere.

From an outbound sales perspective, it's also important to remember that you've got an entire portfolio of warm leads at your disposal. You've already established relationships with your business customers, now you can target them with a merchant services campaign. We always make sure to put the bank's brand and personnel out front when possible — you've already established trust with your customers. Use that to position your bank as a business consultant.

WHAT HAS THIS INDUSTRY TAUGHT YOU?

Collectively, this industry has taught us the importance of listening. Over the last quarter-century we've watched lots of companies come and go. And most of them had one thing in common: they didn't take the time to listen to or understand their customers. Some were just concerned with making their numbers. Some thought they had it all figured out on their own. Some got too big to care about the "little guys" anymore. But none of them listened.

But we can do better than that. We want to take the time to hear from our partners and learn from their experiences. And then use that feedback and practical knowledge to make our program better every day. We'll all agree that not every customer is right all the time. But every customer has something to say. And we must be sure to listen.

WHAT IS THE GREATEST MYTH ABOUT CREATING A MERCHANT SERVICES PROGRAM?

The greatest myth about creating a merchant services program is that it is too expensive and too hard to do. Of course, that answer comes with a caveat: If a bank were attempting to create an in-house merchant services program, it's actually more expensive and even harder than you think. But bringing on FiNet as a third-party provider ultimately costs the bank nothing and, in truth, could be up and running and generating revenue in weeks, if not days. There's sometimes an intimidation factor when it comes to merchant services, but that's why we're here. We handle the hard part, train your staff to know just the things they need to know and then turn the key to start generating revenue for your bank.

HOW MANY PEOPLE WORK AT FINET? WHAT IS THE TOTAL TENURE OF YOUR STAFF?

There are currently 20 team members working at the FiNet headquarters in Boardman, Ohio. Our management team has been in the payments industry for, on average, 21 years. For the FiNet staff overall, the average industry experience is 11 years.

YOU'RE AN OHIO-BASED COMPANY SERVING COMMUNITY BANKS. WHAT DOES OHIO MEAN TO YOU?

Ohio has been our home since the beginning. And not just for FiNet but for the people that make up our team. Most of us have spent our whole lives right here in Ohio, so we know the type of communities that make up our state. And we know that Ohio is a great place to live, work and do business.

WHAT ARE YOU MOST EXCITED ABOUT FOR 2021?

Like most others, we're thrilled to put 2020 behind us and have high hopes for a return to some sense of normalcy in 2021. We're excited to have the opportunity to get back out and see our partners again!

CBAO

Celebrating 20 Years of Leadership!

In March 2001, Robert L. Palmer stepped into the role of leading CBAO and serving the community bankers of Ohio. Over the years, he has taken the time to build one-on-one relationships with the many bankers and associate members across the state. Through hard challenges and great successes, Bob has always passionately represented community banking and its core values. Thank you, Bob, for your 20 years of dedication and leadership with CBAO!

"Bob Palmer has a true passion for community banking that is hard to find with extreme enthusiasm. It really shows when he is speaking to a group and leaves his notes and switches from speaking to preaching. We need more Bob's to share the community bank gospel."

Shon B. Myers
President & CEO
Farmers & Merchants Bank

"Bob's passion for community banking is unparalleled. I have to credit Bob for getting me active in CBAO and ICBA. We met at Bob Evans on Hamilton Rd. in Gahanna for breakfast in the Winter of 2008. I was very upset about how the big banks were using community banks as human shields in the defense for more regulation in the light of the Great Recession and the mortgage crisis. Bob made it very clear where he stood and enlightened me with this comment, "If you stand for only community banks, your message can be directly and swiftly delivered." It was at that point I asked Bob to help get me involved so I could help our industry become a better place for community banks to flourish."

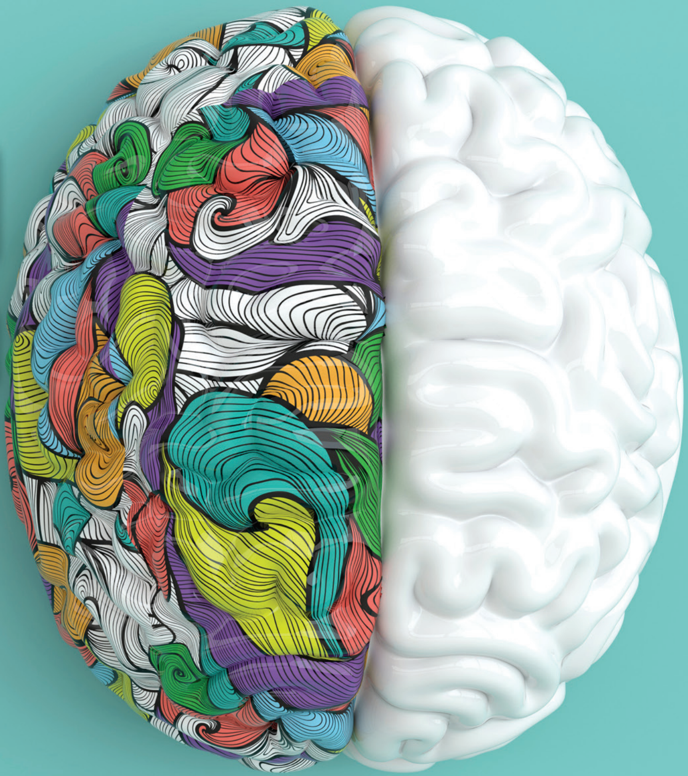
Scott McComb
Chairman, President and CEO
Heartland Bank

"Bob Palmer was a lifesaver for me during the financial crash in 2008. Our institution owned both Freddie and Fannie stock and took a large loss. The event wiped out our entire year's income and we showed a loss for the first time in our history. It was my second year as CEO. Bob agreed to come to our Stockholders Meeting in April of 2009 to give a presentation around Community Banking. He had an amazing performance and afterwards we did not get criticism from our stockholders. As a matter of fact, we had individuals wanting to invest more in the bank! Bob is the embodiment of Community Banking and has represented us with incredible passion and vision his entire tenure. Thanks Bob!"

Chad L. Hoffman
President and Chief Executive Officer
Richwood Bank

brand perception

THE ART OF SURVIVIAL DURING A GLOBAL PANDEMIC



A few years ago, my daughter was getting married. After spending the day touring different venues, she came home and exclaimed that she found the perfect place. I asked her the cost per plate, the capacity, the availablity – all the information that a father needs to know before footing the bill, but all to which she did not know. Better yet, she never thought to ask. When I asked her how she was able to determine this venue was "the place" without knowing any of the facts, she responded by telling me it was all in the look. She made the decision within five minutes of walking in, based solely on aesthetic appeal. The venue was recently renovated, immaculately clean, and really portrayed something out of a fairy tale. So strong was the perception of the venue that it trumped costs and logistics. Too expensive? "We'll make it work." Awkward hours? "We'll make it work." Awful food? "We'll bring in a caterer." It is simply amazing how we as consumers are willing to make sacrifices to our convenience and our wallets when dealing with something that we perceive to be great.

by James G. Caliendo
President & CEO, PWCampbell

Perception is powerful. It can question our reasoning and alter our judgement, even when we know our perception may be wrong. It latches on to our psyche and drives us to make decisions – both rational and irrational. How many times have you driven out of your way to go to a restaurant based on a review, or a past experience? How many restaurants did you pass along the way to get there? How many times have you made an expensive purchase on something you thought would be revolutionary – a TV, a laptop, a phone, or a car? How many less expensive models did you pass up to buy it? Whether we have to have it, have to drive it, or have to be married in it, the way we perceive something to be will dictate our drive to engage with it as consumers.

James G. Caliendo is a former bank executive and now President and CEO at the 110 year old design-build and retail services firm. In the past 20 years alone, under Jim's direction, PWCampbell has worked with over 500 financial institutions influencing millions of square feet of retail and operational space to create engaging, impactful and scalable solutions for every sized facility project.

Branches are exactly the same way, and the perception that you give your consumers will dictate your success in the industry. If your branch is outdated, lacking in technology, not operationally logical, cluttered, or unbranded, you need to understand the message that you are sending your consumers. Throw a global pandemic into the mix and that message is magnified tenfold. For example, in normal times, an outdated branch may give the perception of being behind the times, or maybe "just getting by," but during a pandemic, it serves doubt on whether or not you will even make it out alive. Everything you have done/will do right now is under a microscope. Make the wrong move, and you can very well be feeling the repercussions of a bad decision for years to come. However, make the right move, and you will be set up for success by capturing market share and outperforming your competitive set.

That sounds like a lot of pressure, but it is a lot easier than you think. The key is all in perception. The goal is to drive the perception that you are here to stay, and that your institution is financially sound – sound enough to withstand the hardships and mounting pressure of anything, even a global pandemic. And the best way to do that is by making investments in your branches now. Whether it be improvements to the space, expanding to a new location, or integrating technology, you need to show your consumers and your community that you are here to win.

SOME THINGS TO CONSIDER

NEXT GEN BANKER

Statistically speaking, millennials and Gen X make up the overwhelming majority of the U.S. workforce. Whether we like it or not, this next-gen banker is on the rise, and on the prowl. Understand that your outdated branch could be the deciding factor between attracting, retaining, or losing new customers for years to come. Invest in capital improvements to renovate, modernize, or reimagine your space to appeal to the new age consumer while still appealing to your existing customer base.

PANDEMIC RESPONSE

The pandemic has caused trying times for businesses all over the globe. We are hearing stories every day of local businesses constantly having to adjust their daily operations while learning to adapt to shifting consumer behaviors. Some businesses have been forced to close their doors permanently as a result of the ever-changing mandates.s Your customers will be looking very closely at what you do now more than ever to assess your stability, and even the smallest misstep will be scrutinized.

SOMETHING IS BETTER THAN NOTHING

A lack of action in your branches now will give off a perception that your brand is remaining complacent – a losing strategy for future growth and survival. Complacency means uncertainty, and uncertainty leads to worry. By not investing now, the message you are sending to your consumers is "we are going to wait it out and see if we can survive first" – not the message you want to send to your existing and potential consumer base. On the flip side, investing in your branches now screams "we are here for the long haul." And this is especially true when your competition is not spending. It shows stability as well as success. It is a sure-fire way to enhance the perception of your institution.

BEEF UP TECH

Specifically, enhancing your technology profile within your branches sends a clear message to consumers: "We see ***future*** in our institution." By adopting and integrating technology in the branch, not only are you enhancing the overall customer experience, but the perception is that you are future proofing your branches to meet the needs of the modern banker and the industry for years to come. The underlying message is that you will continue to be there as a stronghold in the community. From digital signage to iPad integration, touchscreen kiosks and more, the opportunities are endless. Pick one or pick them all and run with it.

STOP WORKING IN YOUR BRANCHES

And start working ***on*** your branches. Read that again. The biggest and most common mistake that CEOs and executives make, especially in stressful times, is that they get so caught up in the day-to-day that they lose sight of the long term vision and strategic mission of the brand. Remember, the vision and perception come from the top down, so leading by example is a must. If you want to drive a positive perception to your consumers, establishing one for your employees is equally important, as they are the ones on the front line driving the customer journey.

In the end, it is important not to lose sight of the end goal of the brand: to grow. And investing in your branches especially at a time like this is the best way to show it. As the saying goes, "the best defense is a stronger offense." Act now, invest in your branches, and push the positive perception that will continue to generate return for years to come. ■

LIQUIDITY STRATEGIES FOR ILLIQUID COMMUNITY BANK STOCKS

Greyson E. Tuck, *Attorney and Consultant*
Gerrish Smith Tuck, PC

The fundamental duty of community bank directors and executive officers is to enhance shareholder value. One of the key tenets of enhancing shareholder value is providing actual common stock liquidity. In this regard, liquidity is defined as the ability of a shareholder to convert their shares to cash at a fair price in a timely manner. Unfortunately, many community bank stocks do not enjoy market liquidity. A community bank shareholder's inability to convert their shares to cash at a fair price in a timely manner represents one of the biggest threats to the ability to maintain long-term community bank and holding company independence. If your community bank has adopted a strategy of long-term independence and your stock does not enjoy market liquidity, the following should be considered to provide for liquidity in the common stock.

1. **Walk-In Stock Repurchase Program** – A Walk-In Stock Repurchase Program offers share liquidity by authorizing a representative of the holding company, typically the President or Chief Executive Officer, to repurchase on behalf of the holding company shares of holding company common stock within certain board-established parameters. To implement a Walk-In Stock Repurchase Program, the board passes a resolution that (i) allocates a specific amount of corporate cash to the program; (ii) establishes the per share price at which the authorized representative may repurchase shares; and (iii) establishes any other terms or conditions appropriate for the program, such as a maximum number of shares to be repurchased from a selling shareholder. Following approval of the board resolution, the authorized company representative is free to act upon any shareholder request for liquidity that fits within the established program terms. This provides the shareholders a ready, willing and able purchaser that can quickly react to shareholder liquidity needs.

2. **Voluntary Stock Repurchase Program** – A Voluntary Stock Repurchase Program is a formal program memorialized in a written document distributed to the shareholders that describes the terms and conditions of an offered share repurchase as approved by the board. In this type of program, the board allocates a specific amount of corporate cash to the purchase of holding company common stock at a specified price per share. Similar to a Walk-In Stock Repurchase Program, the board is free to incorporate any other program terms determined appropriate, such as minimum share repurchase requirements, or a requirement that a shareholder owning less than a specified number of shares sell all of their shares to participate in the program. Once the voluntary stock repurchase program document is drafted and approved by the board, the documentation is distributed to shareholders for their consideration. Any shareholders wishing to sell shares back to the holding company may then respond in accordance with the terms of the program.

A Walk-In Repurchase Program is a reactive solution to shareholder liquidity, whereas a Voluntary Stock Repurchase Program is a proactive solution to shareholder liquidity. The general concepts relative to the programs are the same. The primary difference is in a Voluntary Stock Repurchase Program the shareholders are provided specific program documentation that actively solicits the repurchase of shares, should the shareholder wish to sell.

A bank holding company's repurchase of its own stock provides a number of corporate benefits. The selling shareholder receives cash for the purchase of their shares at a fair price in a timely manner. The corporation and the remaining shareholders realize a number of benefits from the repurchase of shares, such as:

- An increase in share ownership percentage for the remaining shareholders without individually coming out of pocket with cash
- Increase in return on equity
- Increase in earnings per share
- Increase in dividends or distributions per share, assuming the aggregate payment remains the same

There are several issues bank holding companies that are considering a Walk-In or Voluntary Stock Repurchase Program must think through. Of primary importance is how the program will be funded. One option is to allocate the organization's "excess capital" to the program through payment of a special dividend from the bank to the holding company to provide the holding company cash to repurchase the shares. Another option is the use of bank holding company debt, either by drawing down on a line of credit, taking out a term loan or issuing subordinated debentures.

Another consideration is the price per share to be paid for the stock that is repurchased. The repurchase price is set by the board of directors and should balance the competing interests of the selling and remaining shareholders. In other words, the repurchase price should fairly compensate the selling shareholders for the value of the stock while also serving the interest of the remaining shareholders by not overpaying to complete the repurchase. To achieve this balance, the board of directors should always conduct a financial analysis of the potential stock repurchase before finalizing the terms of the program.

Additionally, bank holding companies should keep regulatory considerations in mind when assessing a potential share repurchase program. The applicable regulations generally provide that a bank holding company may not engage in a repurchase of more than 10% of the company's equity within any 12-month period without first receiving regulatory approval. However, there are specific exceptions to the prior approval requirement, which generally provide prior approval is not required when the holding company and lead bank are in good regulatory standing and will remain well capitalized and well managed after the share repurchase. Notwithstanding these specific regulations and exceptions, the Federal Reserve has issued guidance that indicates bank holding companies that are going to engage in a material share repurchase should at least consult with the Federal Reserve prior to completing the purchase. Our recommendation is to provide advance notice of a material share repurchase to the Federal Reserve prior to its commencement even if formal approval is not otherwise required.

3. **Employee Stock Ownership Plan (or KSOP)** – A third liquidity alternative is the development and utilization of an Employee Stock Ownership Plan ("ESOP"). This may also include an ESOP with a 401(k) feature, commonly referred to as a KSOP.

   An ESOP is a trust established for the benefit of the bank employees, the purpose of which is to purchase holding company stock for the benefit of the employees. The ESOP receives cash to purchase shares for the benefit of the employees through the receipt of tax deductible contributions from the bank. However, employer contributions are not the only source of cash for an ESOP. It is possible to leverage the ESOP, which allows the ESOP to borrow from a third-party lender (not the underlying bank) and use the proceeds from the debt to purchase shares. This provides an additional source of cash for the ESOP, which may be used to repurchase shares from a shareholder looking for liquidity.

   A KSOP is similar to an ESOP, except a KSOP has an additional source of cash. In a KSOP, employees are provided the opportunity to direct a portion of their 401(k) funds (typically not more than 50%) to the KSOP for the repurchase of shares. This can be either existing 401(k) balances, future 401(k) deferrals, or both. Essentially, a KSOP adds holding company common stock to the menu of available investment alternatives for the bank employees.

   As a qualified retirement plan, there are a number of rules and regulations applicable to an ESOP or KSOP. Two of these are of primary importance. First, an ESOP or KSOP is prohibited from purchasing shares at a price that exceeds the fair market value of the shares as determined by an annual, independent appraisal (unless the stock is traded on an active market). For this reason, an ESOP or KSOP must have an annual valuation of the holding company common stock, and the price to be paid for the purchase of shares cannot exceed the determined amount. The purchase may be less than the appraised value. Second, an ESOP or KSOP must be "primarily invested" in employer stock. Although there are not specific regulations, this is generally thought to require at least a majority of the employer contributions to be used for the purchase of employer stock, which can come from either selling shareholders or the holding company through the issuance of additional shares.

Most community bank holding companies do not have market liquidity. For these holding companies, it is important they take a proactive approach to offering share liquidity. A Walk-In or Voluntary Stock Repurchase Program, or the establishment of an ESOP or KSOP, provides opportunity for the shareholders to enjoy true liquidity in the investment. This is an important component to enhancing shareholder value, and is vital to achieve a long-term strategy of independence.

GERRISH SMITH TUCK

Consultants and Attorneys

Greyson E. Tuck is a member of the Board of Directors of Gerrish Smith Tuck, PC and Gerrish Smith Tuck, Consultants, both of Memphis, Tennessee. Mr. Tuck's legal and consulting practice places special emphasis on community bank holding company formation and use, community bank mergers and acquisitions, regulatory matters, corporate reorganizations, corporate taxation, general corporate law and community bank strategic planning. Mr. Tuck is a current faculty member at a number of banking schools across the country, and is a dynamic speaker that is a frequent presenter at state and national bank association conferences.

ALL THE KETCHUP YOU CAN EAT

Stephen A. Ingalls, *President/CEO*
Catalyzer, Inc.

Very few things get me as agitated as trying to enjoy french fries with the small, rationed ketchup portions dispensed in those ridiculous packets. Even the little cups of ketchup are insufficient to the task. What self-respecting onion ring can even get in that cup? After all…it's America. You ought to be able to have all the ketchup you want.

Several years ago, we were having a lovely dinner at Skinny J's restaurant in Paragould, Arkansas. Our server, a young lady (let's say) named Michele, was doing a fantastic job caring for us as we dined on gourmet hamburgers and a perfectly prepared batch of french fries.

As is our custom, we practice our emotional intelligence at restaurants, a skill made popular in the 2000s by Daniel Goleman and that focuses on our self-awareness, self-management, social awareness (reading others and the room), and relationship management. Eating out (or getting a morning coffee or checking out at the grocery store or…) is but one of four practice fields we often discuss and are perfect to develop social awareness and manage relationships.

In Michele's case, she was doing a really nice job, so we made the effort to call her by her name and to acknowledge how she was dividing her attention among the tables she was caring for.

Then…the ketchup was served. A handful of those carefully rationed portions of the condiment I required, complete with the anticipated mess of torn packets all over the dinner table and that little drab of ketchup that never seems to successfully make it into the pile I create for the perfect french fry-dipping experience.

We called Michele over and quietly asked her if it were possible for us to have more ketchup. She leaned in, and in a hushed voice shared that, "I could get in trouble for this, but for you guys, I'll bring the whole bottle." Victory. The spoils of successfully practiced emotional intelligence on that practice field.

Emotional intelligence, we would argue, is "that skill" your best employees demonstrate, on top of their technical acumen. According to Emotional Intelligence 2.0 by Travis Bradberry and Jean Greaves, it "accounts for 58% of performance in all types of jobs and is the strong driver for leadership and personal excellence." Again, the most popular model posits four domains:

- Self-Awareness – knowing ourselves as we truly are
- Self-Management – using self-awareness to choose what we say and do
- Social Awareness – looking outward to learn about and appreciate others
- Relationship Management – using your self- and social awareness to successfully manage interactions

That teller who can't look another in the eye – poor social awareness. Your best business developer – excellent relationship management. Your most positive teammate, regardless of the day and circumstances – strong self-management. You get the picture, and when you get right down to it, I'll bet your bank's true superstars are also those teammates with the strongest emotional intelligence.

Fast forward two years. My colleagues and I found ourselves back in Arkansas and again sat down for a meal at Skinny J's. To my great satisfaction, I saw two, full, ketchup bottles neatly displayed with the other condiments on our table.

You never know where the product of your emotional intelligence might lead, and in this case, it meant all the ketchup you can eat at a food establishment in northeastern Arkansas. You're welcome America.

Do you want "all the ketchup your bank can eat" in your organization? Explore emotional intelligence and build that skill across your team. Want some help? We're really good at this and hope you'll give us a call.

Stephen A. Ingalls is the President and CEO at Catalyzer, Inc. Catalyzer is a CBAO Partner and specializes in tailored leadership development programs, coaching, and research one people-focused issues. More information is available from him at ingalls@teamcatalyzer.com.

FINDING THE NEW NORMAL FOR YOUR BRANCHES

Jeff Klump, *AIA, President*
K4 Architecture + Design

A major impact of the global COVID-19 pandemic has been on office space. Bank employees who were in non-customer-facing roles transitioned to remote work arrangements virtually overnight. Banks scrambled to find ways to remain operational, while still serving customers and keeping employees safe.

Now, nearly a year later, a date for returning to the office continues to be pushed back. Many banks may find flexible work arrangements for some staffers, and that situation could become permanent. So, what does this mean for community bank leaders as you make plans for your office spaces, at your branches and your main offices? What can you do to continue to ensure employee and staff safety as we potentially return to the offices? Are there steps you should take to make your spaces easy to reconfigure in the future?

WHY OFFICE SPACE STILL MATTERS

It is reasonable to wonder if office space will be needed in the future, and in some industries, working from home may continue permanently. But for community banks, there are many reasons to resume an in-person presence when it is safe to do so. The reality is, the office is the heart of your organization, and is a tangible, highly-visible element of your institution. Banking is a "Relationship Business" and it is important to have the flexible space where your team can meet with your customers to have those important and intimate conversations about major financial decisions. Also, keeping your office space comfortable, functional and aesthetically pleasing is crucial to employee satisfaction, which is extremely important for retaining those key employees within your organizations. Your offices can also serve as a canvas to reinforce brand messages, helping your culture by keeping shared values top of mind during the workday.

In the past, offices were one-size-fits-all, with rows of identical cubicles. Today, we are seeing a trend to less defined spaces, with workers being able to choose from a palette of work areas based on the task that needs to be completed. This flexibility also helps make the transition to work from home easier.

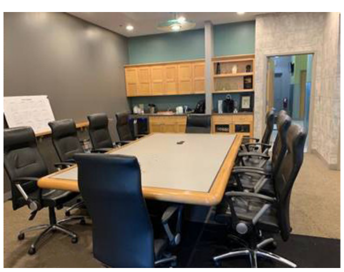
CREATING FLEXIBLE OFFICE SPACES

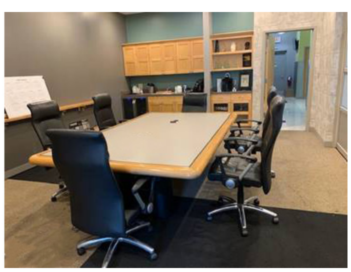
We have helped banks not only transform their branches, but also their main offices and operations centers that support those branches. In both cases, the pandemic has accelerated the need to find ways to make spaces flexible, since creating flexible spaces can allow for increased social distancing when needed.

For branch offices, it is important to think about the concept of social distancing (6 feet or greater) in order to give your customers that comfort level of separation, so it might be worth considering large wall mounted monitors to allow customers to see what's on the screen without sitting too close to staff members. Furniture that is easy to move and reconfigure is ideal for branch offices, again to allow customers to ensure social distancing as needed. Also, as customers start to come back to the branches, it might be wise to for the branches to include multiple sanitation stations at desks and in common areas.

As you consider the main offices, you can also take a palette approach. Employees who do not meet with customers can have traditional offices with a desk, credenza and return. In some cases, it might be prudent to add plexiglass "sneeze guards" to those offices to limit disease and germ spread. Cubicles should incorporate higher walled partitions. Using sections of glass in the panelized systems can open up the cubicles and also allow natural light to permeate the cubicle space, thus making the cubicles seem less confined or claustrophobic.

Conference rooms should be designed to limit large group meetings, and we currently suggest that you remove every other chair in existing conference rooms to provide ample space for meeting participants to spread out.





Video-teleconferencing could also be a considered for your conference rooms. Small, one-person huddle rooms are also useful for focused work or private conversations. Again, having easily reconfigurable furniture is necessary.

From an aesthetic point of view, the goal should be, as one of our industry colleagues, Alexander Besant, wrote recently "to provide a respite from the screen." This means creating a calm space that is welcoming and soothing, while still reflecting your brand.

For both main and branch offices, many banks have started making their spaces available to the community as an opportunity to engage a broader audience. Conference rooms can be offered up for local Chamber of Commerce meetings, for example. Some banks have incorporated coffee bars or casual spots into their space, encouraging non-transactional engagement with your bank and your staff. The pandemic likely limited this, but as things get back to "normal," it makes sense to adjust how these spaces operate to ensure safety. This includes limiting the capacity for conference room meetings and making coffee bars safer by using single-serve items (cups, sugar, creamer, etc.) to limit the chance for germ and disease spread.

As we see people begin to return to the offices, it will continue to be essential to strike a balance between worker safety and productivity. This may require small or large changes to your office spaces. According to a recent article by the Financial Brand: "Times are changing, and employees don't support returning 'back to normal' but rather moving forward to what is next. The good news is it is not an all-or-nothing choice. The more banks include their employees in that process, the more likely they are to reach a solution that balances the needs of both institution and staff."

K4 is always happy to help as you plan for the future – give us a call!

ARCHITECTURE + DESIGN

Jeff Klump, AIA, is the president of K4 Architecture + Design. He has 30+ years of comprehensive architectural, program and construction management experience specializing in financial markets.

Jeff can be reached at (513) 842-5400 or jklump@k4places.com

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 at cbao.com to keep updated on the activities that affect you.*

STATE LEGISLATIVE REPORT CARD – HOUSE

BILL	PRIMARY SPONSOR	DESCRIPTION	House	Senate	CBAO POSITION	EFFECTIVE DATE
H.B. 20	Leland, D. Crossman, J.	Foreclosure & Eviction Prohibition Bill	---	---	Monitor	
H.B. 110	Oelslager, S.	Creates appropriations for FY 2022-2023	---	---	Monitor	

STATE LEGISLATIVE REPORT CARD – SENATE

BILL	PRIMARY SPONSOR	DESCRIPTION	House	Senate	CBAO POSITION	EFFECTIVE DATE
SB 1	Wilson, S. McColley, R	Financial Literacy	---	---	Monitor	
SB 13 HB 53	Lang, G. Hillyer, B.	Contract Limitations	--- ---	Yes ---	NEUTRAL NEUTRAL	
SB 18	Roegner, K. Schaffer, T.	Tax Laws	---	---	Monitor	

FEDERAL LEGISLATIVE REPORT CARD – HOUSE

BILL	PRIMARY SPONSOR	DESCRIPTION	House	Senate	CBAO POSITION	EFFECTIVE DATE
H.R. 24	Massie, T.	Federal Reserve Transparency Act of 2021	---	---	Monitor	
H.R. 766	Loudermilk, B	TAILOR Act	---	---	Monitor	
H.R. 1319	Yarmuth, J.	American Rescue Plan Act of 2021	---	---	Monitor	March 11, 2021

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ORGANIZATIONAL AUDIT

Serving up a great customer experience

By Mike Parnon, *AIA, President*
BrandPoint Design

What do Walgreens, Starbucks, and the Olive Garden have in common? Their message is clear. What you see is what you get, and you know what you are getting.

I frequent the Olive Garden because their products, services, and price are consistent. Visit any Olive Garden West of Tuscany and expect to have a similar experience. Their message is clear. The Olive Garden brand is the total experience. Quality food, clean facilities, and prompt service are all important, but it is the experience that brings me back.

A common question after eating at a certain restaurant for the first time is: "Would you go back?' Good food is essential, but the total experience is what brings people back. A successful Bank has the essential products and services and an environment that fosters their brand and delivers a meaningful customer experience.

The organizations identified above have products and services that are clearly understood, and the customer always gets what they expect for their dollar. No brick wallpaper or Tromp L'oeil. And why is clarity and consistency so important? It builds trust. Your customers trust you to deliver quality products and services - consistently and with clarity. In the banking business the word "trust" is often in your Bank name.

Are you a garden variety Bank? Is your bank's message clear? Do your customers and prospects understanding what you are selling and what they are getting?

If your message is not well defined you need to take a closer look at your organization. You need to conduct an organizational audit.

WHY DO AN ORGANIZATIONAL AUDIT?

The organizational audit is a cultural inventory that analyzes who you are as a group. Many banks talk about their services and myriad financial products but not enough to establish market distinction. The organizational audit is a process that defines your Bank's culture and identity by mapping your organizational thumbprint - which is your history and organizational evolution.

Reinforcing your image occurs in the omnipresence of your brand. I define your brand as "the result of the promises you make to your clientele - your banking customers." Your bank already has a brand. Is it the message you want to send? Have you created the kind of experience that will bring people back?

Although logos and artifacts are important visual elements, it is the environment that reinforces your Bank's branded identity. An environment transcends bricks and mortar; it extends to areas as basic as wall displays and check desk pads. Your Bank's past has in historical critical path which is a string of significant events that has formed your culture. The unique Historic path of your Bank I call your Bank's "Cultural Thumbprint." Define the critical path and you will be closer to clearly defining the organization.

WHAT IS AN ORGANIZATIONAL AUDIT?

Websters defines organization as "an administrative and functional structure" and "audit" as "a formal examination of an organization's or individual's accounts or financial situation and a methodical examination and review." The Organizational Audit is a formal examination of a group's administrative and functional structure. The Organizational Audit surpasses the analysis of a Bank's functional structure and defines a Bank's soul by looking beyond organizational charts, business plans, and financial statements.

KEY ELEMENTS OF THE ORGANIZATIONAL AUDIT INCLUDE:

- Researching the historical origin of ownership, customers, and community
- Mapping past and present Bank facilities
- Tracing trends and Bank services provided over time
- Performing an historical demographic analysis
- Analyzing your Bank's logos and names - assessing graphic connections from origin to current graphics standards
- Analyzing graphics colors and tones in printed materials, your website, and facilities.
- Grading continuity among all customer touch-points including your electronic branch (website)
- Creating or updating your Bank's "Style Guide"
- Collecting historical images from Bank archives, community records, libraries
- Tracking census data
- Identifying indigenous influences including businesses in the neighborhood, Bank customers, and climate

SO, WHERE DO YOU START?

Find 3 firms that provide consulting, design, and construction services to financial institutions. Ask each firm to respond to a qualifications-based request for proposal provided by you that includes:

Define the term "brand" in the context of banking.

How will your firm:

- define our Bank's brand?
- integrate our Bank's culture into future Bank designs?
- shape our image and brand?
- establish the relevance of our culture to our Bank's image, brand, and future facilities?

Hire the firm you feel most comfortable with and has answered the questions with you in mind. Assemble a facilities team comprised of strategic Bank personnel, and your consulting firm, to create the organizational audit together. Establishing a clear brand is about creating an environment that reinforces your Bank's identity.

The organizational audit aids in defining your identity by assembling the required ingredients, tossing around new ideas, mixing them in with conventional wisdom and historical precedent, and peppering it all with references to your new cultural identity. Conduct an organizational audit and make this the era of your Bank's salad days.

BrandPoint Design

BrandPoint Design is an architecture and Bank strategy firm with 30 plus years of financial institution design and consulting experience.

brandpointdesign.com/about

SOFR TAKES THE SPOTLIGHT AS LIBOR'S DAYS ARE NUMBERED

Earl Charneske, *SVP, Midwest Regional Manager*
PCBB

With LIBOR's days being numbered, financial institutions have the option of choosing their own new interest-rate benchmarks, including fed funds. Yet, the Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as the best option. Any widely used interest-rate benchmark should have three key qualities, according to ARRC:

1. A benchmark needs a reliable administrator, one with robust, durable production and oversight.

2. The financial world needs to understand what market the rate represents and how it measures that market.

3. Any benchmark must be based on a market that has enough transaction volume and diversity to survive times of stress. It needs to show resiliency over time and prove difficult to manipulate.

SOFR checks off all three of these.

Strong backing. Changing a widely used interest-rate benchmark is a challenge for everyone involved and not an experience that anyone, from regulators to traders, is eager to repeat. It makes sense to choose a strong benchmark. SOFR broadly measures the cost of overnight cash loans across three parts of the US Treasury repo market. US Treasury securities back the loans.

Robust market. The US Treasury repo market sees about $1T in daily transactions made by banks, pension funds, corporations, asset managers, insurance companies, and every other contender on a list of thousands of eligible borrowers. It's in a good spot to stay liquid, even as markets evolve.

Diverse participants. It also attracts a diverse set of participants. One-third of SOFR involves trades that are cleared through the Fixed Income Clearing Corporation; about 2K entities are eligible to trade there. Around 120 firms lend money and another 40 to 50 borrow in the tri-party segment of the repo market. This is a diverse group much likelier than LIBOR to weather shocks and changes.

Regardless of the benchmark you choose, the transition away from LIBOR is imminent. While you work out the details, here is a list of **important dates** to help.

By January 25, 2021, ISDA's IBOR Fallbacks Protocol to update legacy contracts will go into effect for adhering participants.

June 30, 2021, is the ARRC's recommended date to stop the issuance of new LIBOR-indexed business loans.

December 31, 2021, is currently slated as the last publication date for LIBOR and final stoppage date for all new LIBOR-indexed transactions.

June 2023 is the publication extension (excluding 1-week and 2-month LIBOR) currently proposed by the ICE Benchmark Administration.

If you would like to continue the discussion on SOFR's transition or need additional information, contact Earl Charneske.

PCBB

Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes: cash management, international services, lending solutions, and risk management advisory services.

For more information, please contact Earl Charneske at echarneske@pcbb.com

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CBAO FED PAC

Supporting CBAO FED PAC is the best way to aid the business from which we earn our livelihood.

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 CBAO FED PAC 100% Contributors...

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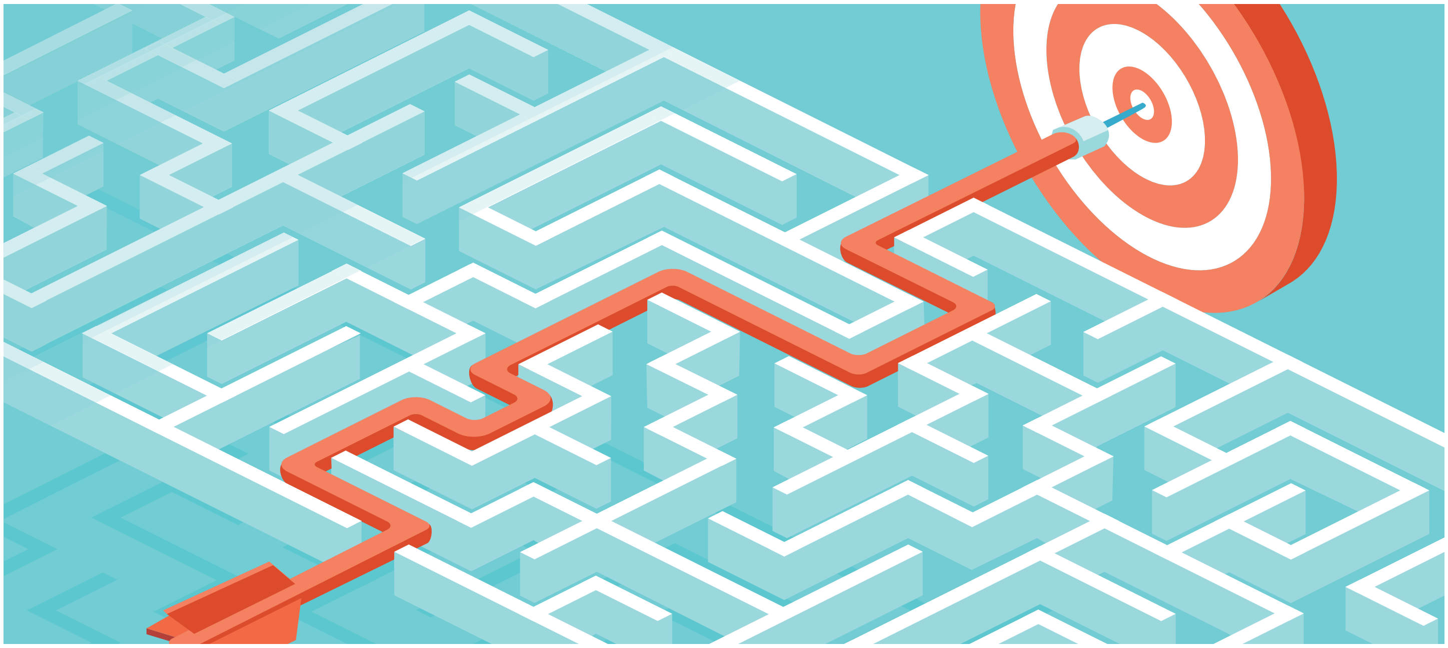

HOW ARE BANKING STRATEGIES EVOLVING IN 2021?

Shane Ferrell, *Vice President of Product Strategy*
CSI

To understand how bankers will prioritize their digital strategies in light of the tumultuous year that was 2020, CSI—a leading provider of fintech and regtech solutions—polled banking executives from around the country, representing 272 financial institutions from across the asset-size spectrum. The data from this survey was then collected and used to create an executive report to help bankers gain insight on the industry's hottest topics and strategies.

WHAT DID BANKERS HAVE TO SAY?

It's hardly surprising that, when asked about the future of the industry in CSI's 2021 Banking Priorities Executive Report, digital transformation thematically unified every priority. While taking stock of their 2020 performance and assessing the year ahead, banking executives almost unanimously agreed: Digital use will likely not return to pre-COVID levels.

Bankers began the survey by reflecting upon the past year with this question: *please rate your bank's response to the COVID-19 pandemic in the following areas on a scale of 1 to 5, with 5 being the highest.*

- In CSI's survey, 97% of bankers acknowledged an irrevocable change in consumer behavior when asked whether they expected digital channel use to increase at their institution even after the virus stabilizes.

- Bankers gave themselves good scores in two areas related to their pandemic response: maintaining in-branch safety (4.3/5) and Paycheck Protection Program (PPP) Loan Disbursement (4.3/5).

- However, bankers identified key areas for improvement as well, including transitioning to digital channels (3.8/5) and managing a remote workforce (3.7/5).

The takeaways? To facilitate seamless transitions to digital, institutions must obtain a better understanding of digital channels and how customers want to use them. And as bankers navigate the challenges of the pandemic and manage remote workforces, a cybersecurity debrief should be conducted to identify all the challenge areas. Reviewing internal controls to ensure all networks, devices, accounts and systems are adequately patched will also enhance cybersecurity for remote workforces.

ADDRESSING THE TOP CHALLENGES FOR 2021

The CSI survey also explored the challenges facing bankers this year, asking respondents to identify *which one issue will most affect the financial industry in 2021.*

- Over one-third of bankers (34%) identified cybersecurity as the top industry issue in 2021. As institutions face this evolving threat, cybersecurity frameworks, such as the CIS Controls, help identify strengths and weaknesses to ensure budget dollars are effectively allocated. Beyond basic cyber hygiene, a robust framework should include due diligence on third-party service providers' cybersecurity controls and appropriate safety mechanisms like biometrics to protect customers.

- As more consumers use digital channels, nearly 20% of bankers rank meeting customer expectations as the top issue this year. Customers increasingly demand seamless experiences, but prioritizing new technologies and striving to balance digital with the human element creates a dilemma for institutions. While embracing the appropriate technologies is essential, effective digital transformation requires a strategic view of immediate customer demand. The right data leveraged from a robust CRM tool can better inform you of products and services matched to consumer needs.

- With regulatory agencies struggling to keep pace with changing technologies, 17% of bankers name regulatory change as the top issue. Data privacy and BSA/AML modernization are among the highest priorities in the realm of regulatory compliance. Institutions must continue to foster a culture of compliance and a robust change management framework to keep their finger on the pulse of regulatory change.

EVOLVING STRATEGIES FOR GROWTH IN 2021

Consumers—many of whom were reluctant to try digital channels— now demand digital offerings that are seamless, secure and convenient. Financial institutions need to leverage new and existing technology to meet these expectations if they want to retain customers and attract new ones.

To grow market share, bankers will continue reframing their strategies to examine new customer segments, geographic markets and product types. But without employing customer data to inform digital transformation strategies, an institution's customer acquisition and retention could suffer. The established data must drive these strategies as they continue to evolve. According to CSI's report, bankers prioritized the following technologies to meet the challenges above:

- Digital Account Opening topped the list of technological advances for nearly 59% of executive respondents. Naturally, the pandemic drove many customers to fulfill financial needs digitally. Even when the need for digital channels has stabilized, customers' desire to seamlessly open an account will remain.

- Mobile Banking Apps followed closely behind digital account opening, with 44% of executives planning to prioritize this technology. When utilizing digital banking apps, institutions should incorporate an integrated design across all channels to deliver consistent functionality. Some customers are new to digital, so creating user-friendly processes for those late adopters is essential.

- Digital Lending has exploded during the pandemic, with 43% of executives reporting this feature as one of the highest technological priorities. As the economic slowdown met high borrower expectations, digital lending became an essential component of a digital banking strategy.

- Customer Relationship Management (CRM) tied with digital lending among bankers' priorities for 2021. Better utilization of CRM to capture existing customer data empowers banks to meet the needs of customers through existing channels, such as digital account opening and mobile banking apps.

DOWNLOAD THE FULL EXECUTIVE REPORT

Get a comprehensive breakdown of the survey data—including insight on digital transformation, cybersecurity, compliance and more—by downloading the 2021 Banking Priorities Executive Report at csiweb.com.

CSI

Shane Ferrell is Vice President of Product Strategy at CSI.

BUILDING UP THE THREE LINES OF DEFENSE IN YOUR CMS

Michael Berman, *Founder & CEO*
Ncontracts

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

THE FIRST LINE OF DEFENSE: EMPLOYEES

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

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

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

WHERE DOES THE FIRST LINE FALL SHORT?

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

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

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

It goes back to that culture of compliance.

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

THE SECOND LINE OF DEFENSE: COMPLIANCE AND RISK MANAGEMENT

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

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

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

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

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

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

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

THE THIRD LINE OF DEFENSE: AUDIT

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

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

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

TWO OUT OF THREE IS BAD

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

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

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

NCONTRACTS
The Upside of Risk

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

FROM THE 2020 ICBA CHAIRMAN

Noah W. Wilcox
2020 *ICBA Chairman*
President, CEO & Chairman
Grand Rapids State Bank
Wilcox Bancshares Inc.
Grand Rapids, MN

This past year certainly has delivered a different experience than I had imagined when I accepted the honor of becoming ICBA chairman. In fact, I've been teasing Pres Kennedy, ICBA's immediate past chairman, that when he passed the gavel to me, the floor fell out.

But when you step into a leadership role, you take the helm prepared to address the issues at hand. When I look back on ICBA's history, I see evidence of the strength and tenacity of our leadership. Our past chairmen have guided us through some challenging circumstances. Just think of Cynthia Blankenship and the late Mike Menzies and Jim MacPhee, who were chairmen during the 2008 financial crisis and its aftermath.

So, when we got wind of the extent of COVID-19, I realized that my chairmanship would not fall into a traditional format. The pandemic seemed to slow things down and accelerate them at the same time, with a lot of short-term decisions having long-term effects. But I'm an eternal optimist, so my tendency is to figure out how to make the best of a messy situation. In this case, we got to work.

We navigated an unprecedented mass loan experience with the Paycheck Protection Program (PPP), and we saved millions of small businesses. We reconfigured our business operations and created an environment where our teams can be efficient and effective remotely. We offered community aid and supported our customers who needed an extra buffer in difficult economic times.

Through ICBA, we have advocated with key agencies, members of Congress and now two presidential

> ***"Despite everything, we remain a thriving network of community banks, united in our common passion for and commitment to our communities."***

administrations. We met with former President Trump to advise on how the pandemic was affecting our communities. We have had numerous advocacy successes, including dedicated PPP funding for community bank lending, regulatory and tax relief, and relief from beneficial ownership disclosure mandates. And, perhaps most importantly, we found new ways to connect with and support one another.

Now, as we assemble virtually this month for ICBA Connect, we bear witness to the fruits of our labors. Despite everything, we remain a thriving network of community banks, united in our common passion for and commitment to our communities.

This may be the most consequential year of my existence, and I will look back on this time as ICBA chairman with humility and pride. Despite enormous hurdles, we were able to deliver true and meaningful support to community banks, small businesses and local communities. We rose to the challenge. I have no doubt we will continue that course into the future and look forward to what we will accomplish together.

MY TOP THREE

Things I'm grateful for:

1. Eternal optimism
2. Making an impact
3. Time to spend with family—and to write a cookbook

FROM THE ICBA PRESIDENT

Rebeca Romero Rainey
President and Chief Executive Officer
Independent Community Bankers of America

The art of storytelling began as a way to solidify cultural history and preserve details for future generations. Yet, to be retained, stories have to trigger us to remember them; they have to elicit an emotional response. In short, stories from the heart stick with us.

Our marketing efforts as community banks often center on the stories we tell, and they resonate because they unveil the beauty of our joint community experience.

For example, we've given home mortgages to the children we watched grow up in our backyards. We have supported retirement

> ***"Our marketing efforts ... often center on the stories we tell, and they resonate because they unveil the beauty of our joint community experience."***

plans for those we sought out for advice when we were kicking off our careers. We have kept our communities thriving by offering loans to new entrepreneurs putting down roots in our area. One story at a time, we've supported generations of people.

(cont.)

FROM THE ICBA PRESIDENT (CONT.)

We can't underestimate how much that community connection matters. We are a culture unto ourselves, with deep roots in our communities, and those intertwined experiences demonstrate the strength of the bonds between us. This connected relationship means that when one of us flourishes, the other does as well. So, when we share our banking success stories, we also spotlight members of our communities.

Consider the small business that stayed open during the pandemic because we were able to secure them a Paycheck Protection Program (PPP) loan, or the expectant parents who built a new nursery through a home equity loan.

Think of the local nonprofit that was able to continue its fundraising because of electronic payment options enabled by our banks, or the family that was able to send emergency funds to an aging parent. These are the histories of our journey as a collective community, supporting one another in times of celebration and difficulty.

ICBA, too, embodies this rich history of community connection. Founded by a group of passionate community bankers, its members continue to fight to preserve the future of community banking. We carry that torch as we come together during this month's ICBA Connect and continue our work to advance our founding members' legacy at a national level.

As you read this month's *Independent Banker*, I hope its marketing insights inspire your community bank in its own storytelling efforts. We cannot lose sight of the power of our stories and the emotional connection that will link our past to our present and our future. As a close-knit community, we must continue to share our stories for generations to come.

What you need to know

ICBA offers a "Tell Your Story" Toolkit to empower you to share your community bank's impact. To find the toolkit, visit icba.org/marketingtoolkit

DO'S, DON'TS, AND MAYBES

A set of simple rules to streamline portfolio management in 2021

Jim Reber
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If my recent aggregate conversations with investment managers are an indication, there is still a lot of seat-of-the-pants decision making going on out there when it comes to portfolio strategies. And I hasten to add this is not a criticism; it's merely an observation. Why should we expect anything else?

Banks are still sitting on a lot of cash. The bond market is giving mixed signals with short rates being anchored at near-zero levels while the Treasury yield curve is its steepest in three years. Bond portfolios still have substantial unharvested gains, and net interest margins are at record lows. PPP 2.0 has been launched, as a new wave of fiscal stimulus is about to be unleashed on consumers and governments.

Given this bewildering set of variables, perhaps we can create a (relatively) simple set of ground rules that portfolio managers can refer to while trying to make sense of it all. I would like to emphasize that "maybe" is the unspoken theme to these guidelines, as every community bank has its own risk/size/earnings/ownership profiles. But here goes:

Do: Stay invested. Cash yields zero, and will remain there for the remainder of the year, at least. A simple bond that yields even 60 basis points (.60%) will probably produce a spread to your cost of funds, and will provide collateral for pledging purposes. An example of a bond that yields 0.60% is a callable agency with a five-year maturity, and one year of call protection ("5/1 callable").

Don't: Keep buying the same old bonds just because. In just the last three years, community bank portfolios have changed tenor significantly. You know that banks own fewer tax-free securities since tax rates were cut in 2017, but did you know that both general market munis, and taxable munis, have picked up the slack? The other big "new" bond sector is multifamily mortgage-backed securities (MBS), which follows…

Do: Take action to normalize your bond portfolio's cash flow. As low as returns (and spreads) are, the cost of eliminating optionality is an all-time low. Case in point: a five-year non-callable agency (aka "bullet") yields about 0.57%, which means an investor surrenders three measly basis points to remove all cash flow uncertainty. In a different sector, MBS, a similar set of dynamics is at play. You've read in this column recently that "prepayment friction" pools which consist of low balance loans can slow down refinance activity. The same outcomes can be achieved with "yield maintenance" provisions on multifamily MBS.

Don't: Worry (too much) about rates rising to the point that your collection of bonds is underwater from a market price standpoint. If your community bank is typical, it will benefit from a general rise in rates. For one thing, since banks own a whole lot of bonds at prices above par, interest rate increases will cause the current bonds' yields to improve. For another, the rest of your bank's earning assets will pretty quickly show some improvement, whether the loan portfolio consists of floaters or shorter-duration fixed rate credits. Community banks' asset/liability positions are built for rising rates.

Do: Stay on top of your portfolio's effective duration, to put your mind at ease about all of the above. We have seen this important barometer of price risk really whipsaw over the last year. At last look, most portfolios had returned to their pre-pandemic durations of around 3.0 years, but that's taken a lot of buying of a lot of longer-maturity bonds to get there. In mid-2020, they had shrunk, on average, to about 2.5 years. That's a 20% increase in two quarters.

Maybe: Invest in some bond education for your staff and you. As the economy (and travel) begins to open back up, there will be a whole range of investment school options available, some virtual, some live, some hybrid. There is also plenty of archival information that's been accumulated over the last year as trade associations, brokers-dealers and consultants have figured out digital delivery channels. So ask around your providers for offerings that may suit your needs.

And by all means, **do** continue your due diligence and documentation of your actions. Investment portfolios have grown remarkably in the last year. They are likely to be a substantial driver of bank profits for the foreseeable future.

VINING SPARKS

Jim Reber (jreber@icbasecurities.com) is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks.

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CBAO Service Corporation

CBAO Service Corporation is your resource for community banking products, services and solutions. Contact us to walk through operational challenges and learn about new opportunities. With over two decades of industry experience, we're ready to address your needs.

For more information, contact Tim Chapman, CBAO Product & Service Advisor, at 614.846.2170 or tchapman@cbao.com

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IT Services

NetGain Technologies has served community banks in the Southeastern and Midwestern region since 1984 from seven branch offices throughout the area.

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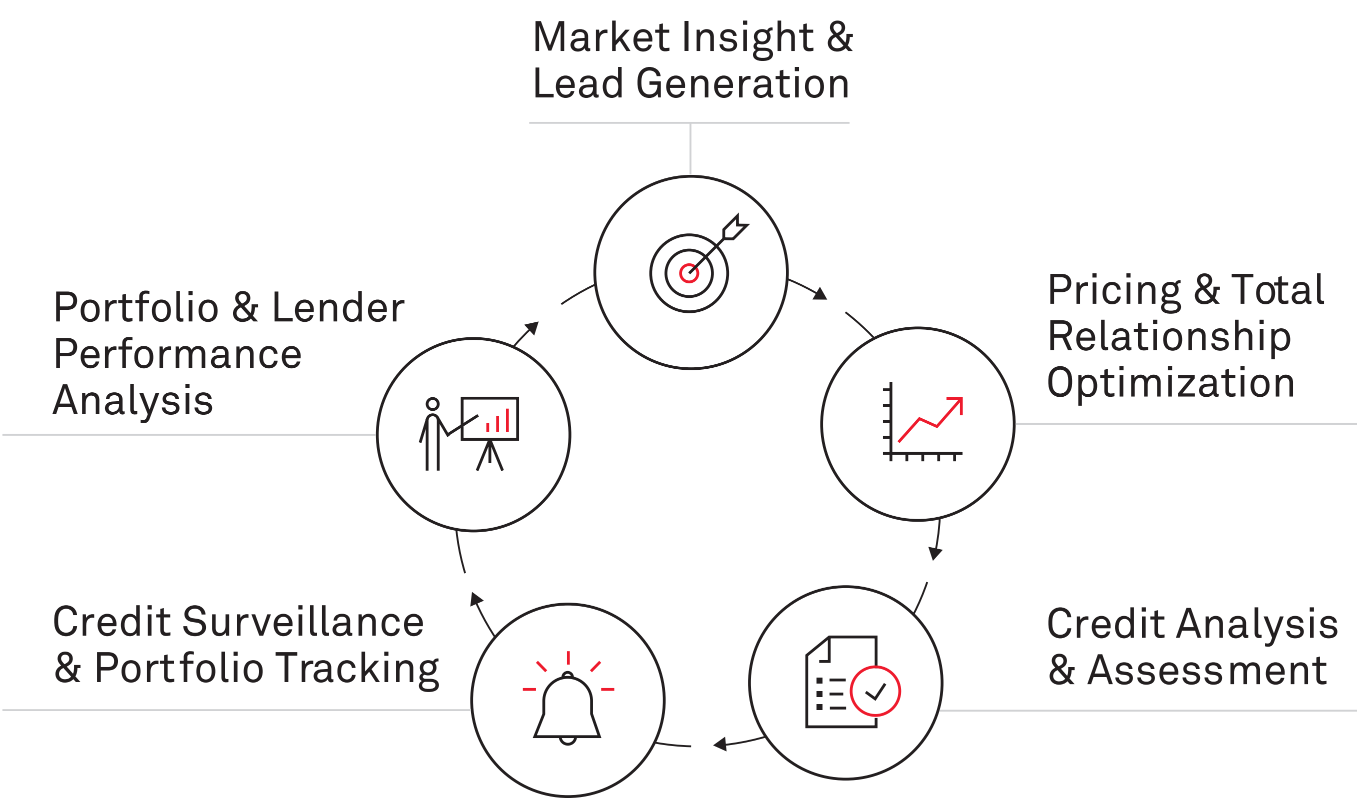

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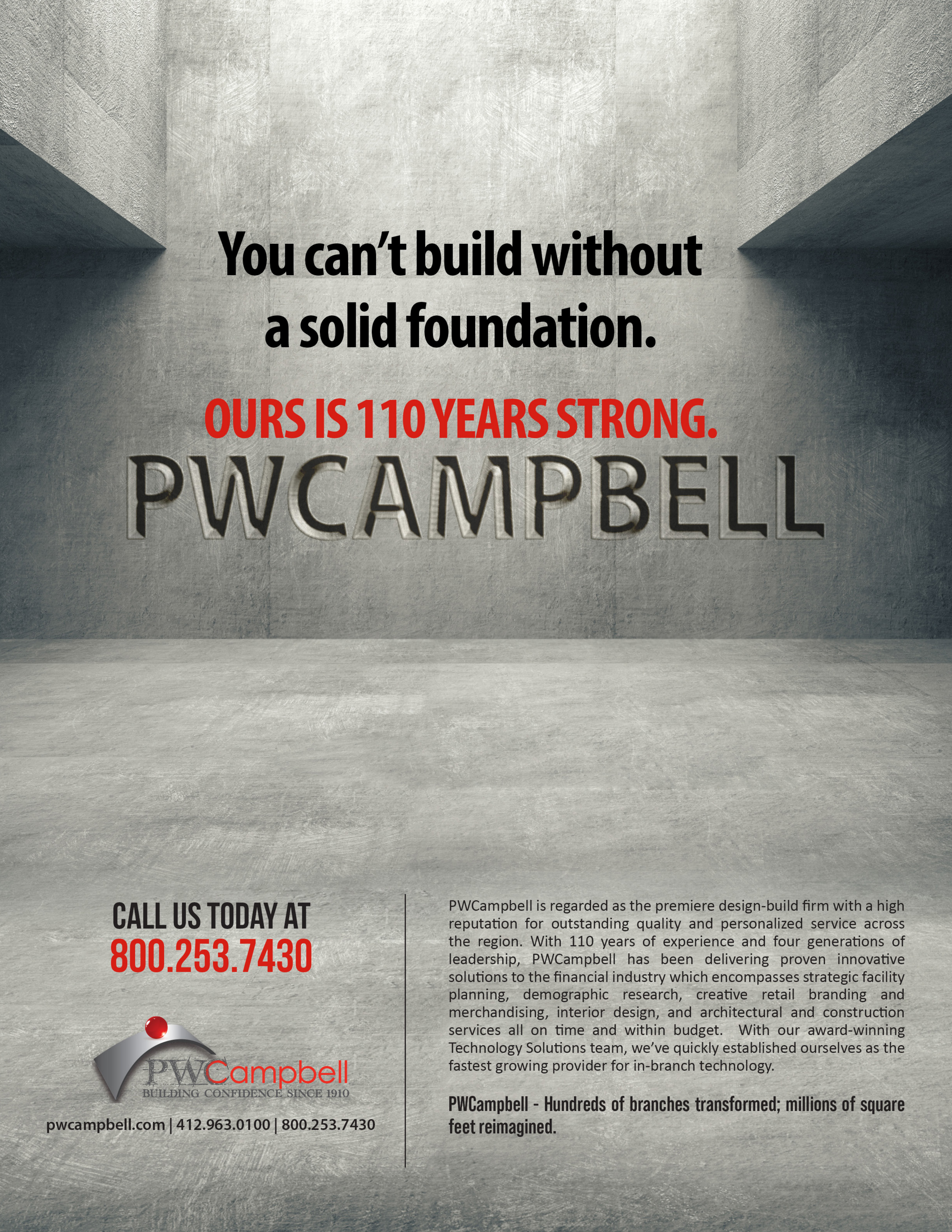

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