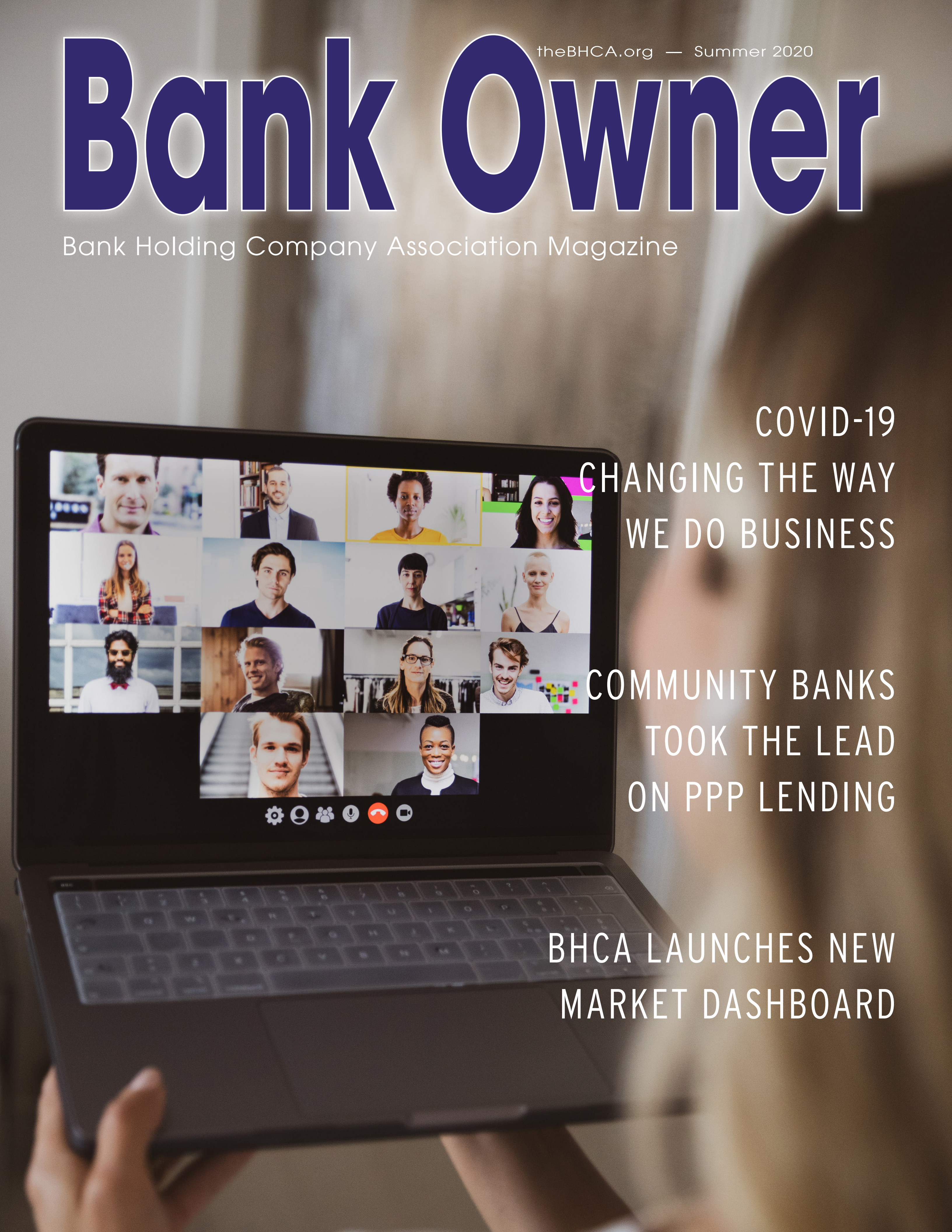
Bank Owner

theBHCA.org — Summer 2020

Bank Holding Company Association Magazine



COVID-19 CHANGING THE WAY WE DO BUSINESS

COMMUNITY BANKS TOOK THE LEAD ON PPP LENDING

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The Bank Holding Company Association exists to provide education and business connections critical to the vitality of bank holding companies.

Founded in 1981, the BHCA welcomes Members from around the country. Holding companies of all sizes from throughout the Midwest make up a majority of the current membership. Companies that serve bank owners, their holding companies and banks, are welcomed as Associate Members.

The *Bank Owner* magazine is the quarterly publication of the BHCA. The magazine is your best source for BHCA information, including upcoming events. Members receive the magazine in the mail and have access to an online version in the members-only section of our website, theBHCA.org. Managing Director Tom Bengtson serves as editor. Contact him at (952) 835-2248 or 1-800-813-4754 or email us at info@thebhca.org.

Bank Owner

Summer 2020

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The Bank Holding Company Association
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Community banks led the charge on PPP

By Harry Wahlquist
Midwest Bancorporation, Inc.
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The coronavirus pandemic has put the community banking industry to the test, and I think for the most part, we have come through it with flying colors. We have all adjusted the way we do business, temporarily closing lobbies, replacing in-person meetings with virtual exchanges, and installing plexiglass shields at teller stations.

Congress reacted fairly quickly by passing the CARES Act, which included the Payroll Protection Program. The PPP activated the community banking world like nothing I've ever seen. Uncle Sam made it a priority to help small businesses maintain employment levels and they were going to provide grants to help them do it. That money would flow not through a government agency such as the IRS, but through the banking system. Billions of dollars were to be funded to businesses across the country with fewer than 500 employees. And it would happen quickly.

The opening days of the program were rocky and it took some time for everyone to figure out the rules, how to navigate the Small Business Administration's website, and learn the details of a brand new program. We read in the newspapers that some of the nation's biggest banks stumbled along the way, refusing to lend to some groups of business owners, responding too slowly, and otherwise disappointing folks who were counting on this money to keep their staffs hired. Keep in mind that unemployment was skyrocketing at the time, with first-time applications for unemployment benefits leaping to record highs.

Community bankers across the country, including those at my own institution, worked around the clock to help borrowers fill out the PPP application. The demand was so strong that the entire $349 billion pool of money was exhausted in about two weeks. That left a lot of applicants unfunded. Fortunately, Congress authorized additional funds to make Round 2 possible. Although demand dropped, community bankers still worked tirelessly to serve every small business borrower who wanted to make the most of this opportunity.

As of the end of May, 5,454 lenders made 4.4 million loans totalling $510 billion. Community banks — that is, banks with assets of less than $10 billion — made 44 percent of those loans, accounting for more than $222 billion. The money helped small businesses preserve millions of jobs.

In Minnesota, lenders made 92,090 loans totalling just over $11 billion dollars. The Insurance Information Institute keeps figures on the number of small businesses (that is, businesses with fewer than 500 employees) and they say Minnesota has 125,762 small businesses, which means 73.2 percent got PPP loans since such loans are limited to one per business. North and South Dakota lenders provided loans to 90 percent of its small businesses. Iowa lenders made 54,924 loans, reaching 80 percent of its 68,059 small businesses; and Wisconsin lenders made 80,341 loans totalling more than $9.7 billion to 69 percent of its 116,427 small businesses.

Now that we are more than eight weeks into the PPP, we are dealing with forgiveness applications. This is a new set of rules we are learning. Many borrowers are counting on this forgiveness so it is essential that we are there to help them understand what they need and how to fill out the application.

As I write this column in early June, Congress is considering legislation to amend the PPP, making it easier for lenders and borrowers alike to make the most of it. The Independent

President's Observations, *Continued on page 9*

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COVID-19 has changed the industry landscape

By Tom Bengtson
BHCA Managing Director

This issue is filled with articles about banking industry issues, articles prepared through the lens of COVID-19, that dreaded virus that most of us had never heard of six months ago. I have been impressed by the BHCA associate members that have done a truly outstanding job providing information about the pandemic, advice about how to deal with it, and ideas about how to minimize its impact on your business and on your customers.

The accounting, legal and consulting firms also have been a reliable source of information on the Payroll Protection Program. I would venture to say that most of our members participated in this unique effort to maintain employment levels at small businesses across the country. The front end of the process was choppy, at best, and as we get deeper into the forgiveness phase of the program, I am sure there will be new challenges to work through. But community banks really emerged as leaders and heroes of the PPP program, and I congratulate you if your bank was part of this effort.

Just as you have had to adapt to the new environment, so has the BHCA. You might remember our first quarter edition of *Bank Owner* magazine was filled with information about our Spring Seminar. About a day or two after we sent the issue off to press, the BHCA Board of Directors made the decision to cancel the Spring Seminar, as well as our one-day Boot Camp event planned for Kansas City. It was the right decision to make, as social distancing rules and shelter-in-place orders put a stop to almost all industry meetings. Although I understand the necessity of cancelling the meetings, I was disappointed as I thought we had prepared a truly outstanding Spring Seminar. As it is, we will keep some of the presentations as candidates for future events.

The board is working very hard to come up with a suitable format for our Fall Seminar. Given the concern over social distancing, and limits on the size of public gatherings, we do not plan to implement the standard agenda format involving 300-plus people meeting in a hotel over a two-day period. Instead, we are considering whether any kind of in-person meeting is feasible. If not, we expect to move forward with a virtual all-digital meeting. As you know, many industry meetings are going this direction, some with great success. While networking is an important part of a BHCA event experience, we may be somewhat limited in our capability until the pandemic lifts. Whatever the situation and whatever rules we need to respect, we will do our best to provide a top quality seminar experience.

Consider service to BHCA board

With or without the coronavirus, the business of the Bank Holding Company Association carries on. One of the most important aspects of the BCHA is its board of directors. While I carry out the day to day responsibilities of the association, the BHCA is run by a board of 10 volunteer bankers/holding company professionals who care deeply about the industry. Each is elected to a three-year term, which is staggered so each year we have two or three bankers going off the board and two or three coming on the board. We meet four times per year, more times if events warrant. We like to meet in person, although lately out meetings have been via conference calls and Zoom.

If you have an interest in serving on the BHCA board of directors, please let me know. New directors are elected at the annual meeting, which typically takes place in October at the Fall Seminar. Board terms begin on the first of the year; board members are eligible to serve two terms, if they choose. Board members are eligible to volunteer to serve on the executive committee, which consists of a president, vice president, treasurer and the immediate past president.

BHCA board service is a great way to serve the association and the industry. The primary responsibility of board members is to contribute ideas that will help us present successful programming and run a sound trade group. If you have been active in other organizations, or have been to a lot of industry events during your career, please consider putting that experience to use by putting your name up for BHCA board candidacy.

Ideally, we want a diverse board, where members bring a variety of ideas and perspectives to the table. The BHCA is active in several states, so we appreciate board members who come from the Dakotas, Wisconsin, Illinois, Iowa, Minnesota and Nebreska, or even other states. In addition, we appreciate that holding companies come in a variety of sizes and we welcome men and women from large organizations, medium-size organizations and small organizations. Everyone's voice is important. Please note that while we value our associate members, our bylaws limit board membership to representatives from bank holding companies.

Down to Business, *Continued on page 9*

By Diane Wolfe

How COVID-19 is impacting regulatory compliance for financial institutions

COVID-19 continues to impact organizations and individuals alike. For financial institutions, it's not just a matter of maintaining their own organizations, they also must plan for how it will affect their customers.

Here are points to keep in mind as you help your customers through this challenging time:

Payment deferrals

Who will qualify for payment relief? While helping your customers work through their temporary cash flow shortfall is a crucial and time-sensitive issue, remaining compliant with federal regulations is something that is no doubt top-of-mind for your compliance staff. Detailed documentation of criteria used to qualify both commercial and consumer customers for payment deferrals will help keep fair lending and other federal regulations from becoming an issue.

Credit life/disability insurance

Does the customer have credit life/disability insurance on their loan? If payments are deferred and the insurance product runs less than the full term of the loan, you will want to disclose to the customer that they will be without coverage for a period of time. Credit life/disability insurance applies to consumer lending.

Escrow accounts

Does the customer have an escrow account related to their consumer residential real estate loan? If payments are deferred, the customer may have a shortage when running the annual analysis. To alleviate this potential shortage, have a discussion with the customer to see if they can afford to make just the escrow payment during the time regular principal and interest payments are deferred.

Another alternative might be to run a short-year escrow statement after the deferral period has passed. Doing this will prevent a large payment shock that likely will occur if you wait until the annual escrow analysis is due.

It is important to note the bank is still required to make any payments scheduled to be made for taxes, insurance, etc., from the escrow account on a timely basis even if it overdraws the escrow account.

Mortgage servicing

The regulatory agencies released Interagency Guidance on April 3 titled "Joint Statement on Supervisory and Enforcement Practices Regarding the Mortgage Servicing Rules in Response to the COVID-19 Emergency and the CARES Act." Within the guidance it mentions FAQs that CFPB has released containing other regulatory flexibility. These documents provide additional guidance for large servicers as defined in Regulation X (commonly referred to as RESPA).

Other considerations

Other items to consider when addressing consumer and commercial loan customers:

- Try to avoid negative amortization when deciding on the number of payments to be deferred.
- If the deferred payments result in Making, Increasing, Renewing or Extending (MIRE) the loan, a new flood determination will need to be obtained.
- Disclose to the customer whether or not interest will continue to accrue during the months payments are deferred.
- Disclose to the customer how/when the deferred payment's interest will be paid.
- Disclose to the customer whether the deferred payment will result in additional interest over the life of the loan.
- Disclose to the customer how the final loan payment will be affected: Will the maturity date be extended, or will there be a balloon payment due?
- Ensure your customer-facing employees have received training on completing your customer disclosure.

Incorporating these suggestions that apply to your bank's circumstances will allow you to help your customers and remain compliant with federal regulations. ■

Diane Wolfe is an accountant at Eide Bailly, a BHCA Associate Member.

By William F. Flynn

Banks, troubled borrowers and tax exempt bonds

While a full understanding of the economic effects of the COVID-19 virus is likely many years in the future, one existing consequence of the widespread economic downturn is that many borrowers are facing serious liquidity problems because of a sudden reduction in revenues. While federal assistance may provide relief to some borrowers, others will turn to their banks to request relief from scheduled debt service payments. Deferring interest and principal payments or restructuring scheduled principal payments pose challenges in any lending relationship, and an additional set of challenges arise if the debt being restructured is a tax exempt bond owned by the bank.

If not done properly, changes to the terms of tax exempt bonds will result in the interest on those bonds no longer being exempt from federal income tax. A material modification to the terms of the bonds will constitute a "reissuance" of the bonds, and the tax exempt status of interest on the bonds will be lost unless certain actions necessary under the Internal Revenue Code are taken by the parties in a timely manner. While not every modification to the terms of the bonds is "material" (for example, an interest rate reduction or change in yield of less than 25 basis points is generally not material), the more significant the changes are to the interest rate, payment structure or principal amortization, the more likely those changes will be material and the bonds will be deemed to be reissued. Providing additional collateral to secure the bonds or adding a new guarantor may also result in the bonds being reissued.

The negative consequences from a reissuance can be avoided. If a borrower has both conventional loans and tax exempt debt with the same bank, the restructuring could be limited to the conventional loan. If the tax exempt bonds must be restructured to achieve the financial relief needed by the borrower, the bank should involve its counsel as soon as possible to determine if the changes can be structured in such a way that no reissuance occurs. If that is not possible, counsel will be able to guide the parties through the reissuance process and take the actions necessary to preserve the tax exempt status of interest on the bonds.

Other ancillary documents relating to the tax exempt bonds need to be reviewed as well. If the bank sold participation interest to other financial institutions, the participation agreement will need to be carefully reviewed as many participation agreements prohibit changes to interest rate or payment terms without the consent of the participant bank. If the borrower issued the debt under a master trust indenture, that indenture and its supplements will need to be reviewed to ensure that the consent of the holders of other debt is not required.

Changing the terms of tax exempt debt has traps for the unwary. Involve experienced counsel early in the process so that issues can be identified and resolved. ■

William F. Flynn is a shareholder in the Banking and Finance practice at the Reinhart Boerner Van Deuren law firm, which is based in Milwaukee. The firm is a BHCA Associate Member.

Five business continuity lessons learned from COVID-19

The COVID-19 pandemic reminds us how challenging it can be to prepare for systemic risk. While not as common as other types of risk, systemic risk can trigger volatility or collapse an entire industry or economy. Certainly the 2020 pandemic qualifies as such an event.

The good news is that the insights gained from the pandemic can be used to update Business Continuity Plans (BCP) and help organizations greatly improve their ability to weather similar disruptions.

A BCP is the process of creating systems of prevention and recovery to deal with potential threats to your company. A written plan that details how your business will respond to and resume business after a major disruption is essential. Now is the ideal time to evaluate the impact the latest threat has had on your business and revise your plan to improve all future business continuity efforts.

While each business' continuity plan must be tailored to its specific needs, there are some general lessons learned from COVID-19 that can be leveraged to improve your future preparedness efforts.

Technology

With the increased need for alternative work arrangements, many organizations had to immediately support a remote infrastructure, expand videoconferencing, upgrade cybersecurity and/or increase call center support. Continued infrastructure and technology investments to maintain business operations are critical.

Supply chain

Disruptions in supply chains tested many business continuity plans. Now is the time to assess if additional/alternative suppliers need to be identified and to cultivate relationships to help mitigate and enhance material availability for future disruption.

Safety controls

Infectious disease threats typically require enhanced cleaning and disinfecting of work and public spaces. COVID-19 also created the need for masks, gloves and the ability to screen for symptoms of the virus in a number of industries. If not previously addressed in your business continuity plan, these hazard controls should be added and communicated to employees. All training efforts should continue to be documented.

Further, in quickly changing environments such as this pandemic, businesses must take extra measures to stay current with the evolving local, state, CDC and OSHA guidelines in order to keep employees safe and stay compliant.

Keep in mind that these same local and federal safety and health organizations may become especially vigilant regarding general workplace safety efforts and your response to the COVID-19 pandemic. Now is the ideal

time to update your BCP and schedule testing, if necessary.

Policies and procedures

Policies and procedures will need to be revised to reflect additional risk control measures to keep employees and customers safe. You may need to create a remote worker policy and agreement. Other areas to consider in your plan include travel procedures, establishment of a crisis response team, identification of essential staff and documentation of expenses related to the interruption.

Pandemic response plans should be added to your employee handbook and communicated to employees.

Communication

The need to quickly educate employees about new work requirements calls for increased communication, not to mention the need to communicate business operation changes to clients and vendors. Determine what communication requirements should be reflected in your BCP and make the appropriate revisions.

Documenting your experiences while fresh in your mind and using it to update plans, procedures and training will improve your organization's resilience. Take time now to debrief, discuss what went well and what could be improved. Using these lessons learned to update your business continuity plan will help ensure you can endure similar disruptions in the future. ■

Article provided by CBIZ, which is a BHCA Associate Member.

President's Observations, *Continued from page 4*

Community Bankers of America is advocating for improvements, including:

- Replace the rigid and unworkable "75/25 split" with a more flexible and realistic formula.
- Provide more flexibility and options on the current eight-week period for spending PPP funds.
- For all loans with an original balance of $1 million or less, allow a presumption of compliance based on a borrower's certification that the funds were used in accordance with the terms of the program.
- Create a streamlined form, comparable to the 1040 EZ, for self-employed borrowers and independent contractors with few resources to complete a complex form.

These changes would make a big difference, so if no progress has been made by the time you read this, I encourage you to reach out to your elected officials and tell them how your bank has participated in PPP. Tell them what a difference it has made for your customers. Remind them that community banks have done most of the heavy lifting on this program.

Thanks very much for your consideration. These are crazy times. Stay healthy, stay safe, and have a good summer. ■

Down to Business, *Continued from page 5*

Encouragement in difficult times

I have to say the rioting that started in Minneapolis and spread across the country has truly saddened me. There is a lot of work that needs to be done to promote healing, restore justice and rebuild our communities. This is a time when we need effective leadership at all levels of government and in all sectors of the community, including the business sector. For most of us, our most effective leadership is going to be by example. As a senior executive in a banking organization, people are naturally watching you. Your example matters.

Your leadership is important on many levels: On your board, in your bank or holding company, and in your community. Consider your role on each level and make the most of it. Review your priorities, think about how you interact with others, and consider what you have to offer to those around you — friends, acquaintances and strangers alike.

I offer these words not as instruction because you certainly know this already. But I offer them as encouragement. We need to encourage each other because doing the right thing isn't always easy or even obvious. We can make the world a better place but we have to work together. ■

By Camille Medina

Emerging trends for financial institutions related to COVID-19

FinCEN provides guidance regarding fraud associated with the pandemic

Since the World Health Organization declared the COVID-19 outbreak a global pandemic in mid-March, scammers have been taking advantage of financial institutions' fears surrounding COVID-19.

Several agencies have reported an increase in coronavirus scams as a means to exploit consumers via the internet (including social media), emails and texts. Specifically, scammers are impersonating the U.S. Centers for Disease Control and Prevention and the WHO through these various channels. Additionally, fraudulent health products and medical treatments are being marketed to consumers as cures for COVID-19.

Based on the increase in fraudulent activity related to COVID-19, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) issued a press release concerning the pandemic on March 16. That release included information related to potential delays by financial institutions in filing required Bank Secrecy Act reports and information related to how financial institutions can remain alert in identifying malicious or fraudulent transactions, which often arise during natural disasters.

First, FinCEN advises financial institutions affected by the COVID-19 pandemic to contact them and their functional regulator as soon as practical if there are concerns regarding potential delays in their ability to file required BSA reports. Financial institutions seeking to contact FinCEN should call its Regulatory Support Section (RSS) at 1-800-949-2732 and select option 6 or email FRC@fincen.gov.

Second, FinCEN advises financial institutions to remain alert about potential illicit behavior and fraud associated with COVID-19. FinCEN identified the following four emerging trends:

Impostor scams: Bad actors attempting to solicit donations, steal personal information or distribute malware by impersonating government agencies, international organizations or health care organizations.

Investment scams: The Securities and Exchange Commission urged investors to be wary of COVID-19-related investment scams, such as promotions that falsely claim the products or services of publicly traded companies can prevent, detect or cure the coronavirus.

Product scams: The Federal Trade Commission and Food and Drug Administration have issued public statements and warning letters to companies selling unapproved or misbranded products making false health claims pertaining to COVID-19. Additionally, FinCEN has received reports regarding fraudulent marketing of COVID-19-related supplies, such as certain face masks.

Insider trading: FinCEN has received reports regarding suspected COVID-19-related insider trading.

In addition to the scams noted above, other areas of concern through multiple sources include:

Illicit financial flows: Tremendous increases in government spending to obtain resources, services and foreign assistance, often without enough transparency and oversight, can lead to bribes, kickbacks, contract malfeasance, misappropriation of funds, etc. Meanwhile, criminal organizations will still engage in money laundering and other illicit financial activity to maintain their criminal supply chains.

Limited regulatory oversight: Given current quarantine considerations, many regulators are unable to conduct their oversight activities at usual levels. The Federal Reserve has already announced it will temporarily reduce its bank examination activities, while Canada is now triaging its money laundering reporting.

Customer due diligence limitation: Conducting due diligence of customers may be limited or not feasible due to quarantine restrictions.

Shell companies and foundations: Ending anonymous corporate ownership, the standard tools used for money laundering, is critical to mitigating illicit financial flows, including frauds and scams related to the coronavirus.

FinCEN referred financial institutions to FIN-2017-A007 "Advisory to Financial Institutions Regarding Disaster-Related Fraud" (Oct. 31, 2017) for descriptions of other relevant typologies, such as benefits fraud, charities fraud and cyber-related fraud.

In the event suspected suspicious transactions are linked to COVID-19, individuals preparing suspicious activity reports (SAR) should check the appropriate SAR-template box(es) for certain typologies, and FinCEN also encourages financial institutions to enter "COVID19" in Field 2 of the template.

Financial institutions should remain vigilant during the pandemic and develop additional controls and contingency plans as necessary to continue monitoring for potential illicit behavior alerts in accordance with regulations and policy. Additionally, authorities encourage financial institutions to find creative ways to conduct customer due diligence, including developing new protocols for compliance against money laundering so employees can work from home while securing company and customer private information. If any COVID-19-related delays arise, contact FinCEN and functional regulators as soon as possible. ■

Camille Medina is a manager at RSM US, which is a BHCA Associate Member.

By Craig Collins

Are your employees ergonomically prepared to work from home?

We've settled into a new normal. Because of the coronavirus, the country has been put on hold, closing restaurants and many retail stores and malls, implementing social distancing when out and strongly encouraging people to stay home. This means most workers have opened up their home offices, changing daily routines and structure, including how we work.

Moving a traditional employee to a full-time work-from-home environment is a learning curve for most. Trying to find and set up the right place in their home to work can be challenging, and oftentimes ergonomics safety is forgotten. In most cases, people aren't prepared with the proper equipment and need to work with what they have. There can also be distractions that one might not be used to throughout the day. With so many bank employees working from home, practicing and enforcing good ergonomics is particularly important, as it could pose potential liability issues for an employer, including liability relating to workers' compensation or cyber risks.

If available, employees should utilize auxiliary equipment that works with the laptop, including a keyboard, mouse and monitor. Having a standard, adjustable office chair and a desk is helpful, but it is possible these are not accessible to all employees.

While Intact and OneBeacon have transitioned to a long-term work from home plan, we would like to share the resources we use, provided by Entrac, an Intact partner, that may help you.

Consider the following tips for working effectively and comfortably:

Set your schedule

- Try to maintain your regular hours. This helps maintain a work-life balance, and continue to let your manager and colleagues know when you are available.
- Continue your morning routine and prepare as if you were going into the office (shower, get dressed and enjoy your coffee).
- Create a signal that indicates the end of a workday – whatever is needed to shut down and unwind. This may be logging off to cook dinner, walk the dog, or exercise.

Define your workspace

- Find a quiet and comfortable space that mimics an office environment as much as possible.
- Customize your space like you do in the office for motivation and inspiration. If possible, allow for daylight to keep your space bright.
- If needed, set a schedule with others in your home regarding your space when working.

Work from home, *Continued on page 15*

By Bryan T. Di Lella

Managing costs in a time of crisis

In this time of great challenges caused by a worldwide pandemic brought on by the rapid spread of the coronavirus, financial institutions are a crucial conduit to facilitate stimulus aimed at aiding widespread economic recovery. Government orders and voluntary initiatives to close businesses nationwide to control the spread of COVID-19 have delivered negative economic and societal impacts that must be addressed in the foreseeable future.

With the global financial crisis in recent memory, we recall a time when governments and businesses worked together under dire circumstances to plan and execute a path forward to new prosperity. We will repeat that process to chart a new course out of this health and financial crisis and return to economic growth once again. Financial Institutions will play an important role in the recovery. For example, financial institutions are working diligently to continue serving customers under constrained operating conditions while processing record volumes in Paycheck Protection Program loans.

Despite the temporary increase in fee income from the PPP, financial institutions must anticipate the likely challenges ahead and develop a plan to weather a downturn. Institutions should be looking for ways to cut costs amid the probable revenue and earnings impact from the post-pandemic loan portfolio quality and margin compression.

With few exceptions data processing expenses are among the top three expenditures, along with salary and benefits, and premises and fixed assets, that a financial institution incurs on an ongoing basis. Data processing expenses, which include an institution's spending on core processing and ancillary systems, are easily addressable cost reduction targets, if the timing is right.

So called ancillary systems are key applications that surround and interact with the core system. They include important services like ATM/EFT, credit card, online banking, mobile banking, loan origination and servicing, payments, wire transfer, cash management, document management, BSA/AML, IT security, check processing, among others.

With the trend toward outsourcing, IT managed services has also taken on greater importance as a key service and expense for financial institutions. These ancillary systems are as important as the core system because they not only support the key business functions of the institution, but also serve as touchpoints for customers or members.

We also see financial institutions aggressively pursuing new strategies to expand and emphasize digital channels — many that shrewdly started such projects prior to the onset of the pandemic. In modernizing their digital channels banks are not only reaching more customers, they are doing so with more innovative and integrated applications while potentially reducing data processing spend. Furthermore, they are making a sound investment in what will become a vital channel through which customers and members will be served in a post-pandemic business environment.

Financial institutions are also making changes to the digital channel to address a shifting mix of commercial or consumer business, integration to the core system and even because of variable vendor product and support plans. When reviewing data processing systems contracts, grouping ancillary products that serve the digital channel with other important applications and especially the core system will naturally increase the purchasing power

Managing costs, *Continued on page 15*

By Ashley Brendemuhl

Navigating a pandemic: Actions in the Ninth Federal Reserve District

The COVID-19 pandemic has affected financial institutions and their local economies in many challenging ways. Members of the supervision staff at the Federal Reserve Bank of Minneapolis are focused on understanding these challenges and are conducting frequent outreach by surveying State Member Banks (SMBs) to monitor and better understand the current environment. Themes emerging from these surveys and related discussions are highlighted in more detail below, along with available resources and guidance from the Federal Reserve System.

With adoption of social distancing to help slow the spread of COVID-19, one of the more visible ways that financial institutions responded was branch and lobby closures. In mid-March, the Reserve Bank began receiving notifications from financial institutions that were reducing access or closing lobbies to customers. These changes were communicated to customers by signs posted on entrances, banners on bank homepages, announcements on social media platforms, and direct mailings to customers. Signage and online communications directed customers to alternative ways to conduct bank business. A majority of institutions directed customers to use drive-through lanes at branches to complete banking transactions, obtain signatures, or drop off necessary paperwork. Many financial institutions also encouraged use of their digital and mobile banking platforms for quick and convenient access to accounts. For business that needed to be conducted in person, financial institutions were open by appointment, while practicing safe social distancing measures within (and outside of) the bank. Many of these institutions also limited their hours to facilitate alternative staffing arrangements. Where possible, institutions implemented "work from home" for many employees. Others established rotations or teams that would take weekly/biweekly shifts at the bank, ensuring that adequate numbers of staff were available in case an employee became ill or quarantine was necessary.

Despite operational challenges, all bankers have remained committed to serving their communities by working to meet their customers' needs. Bankers have been working with individual borrowers who contacted them in order to accommodate their particular situations or circumstances. Loan modifications were frequently cited as a relief measure for those with existing lending relationships who may be experiencing financial hardship due to COVID-19. Examples of these modifications include deferred or skipped payments, interest-only payments, payment reductions, lower interest rates, and extended maturities. Bank employees have also spent a significant amount of time and energy submitting applications, on behalf of existing (and in some cases, new) small business customers, for the Small Business Administration's Paycheck Protection Program. This program provides loans to help small businesses keep their workforce employed during the coronavirus crisis. More information about this program is available on the SBA's website, and eligible financial institutions originating these loans may find resources on the Federal Reserve's PPP Lending Facility (PPPLF) to be useful as well.

As state and local economies begin to reopen, so too are these financial institutions and branch lobbies. Consistent with guidance from the Centers for Disease Control and Prevention, a number of measures are being put into place in an effort to continue keeping customers and bank employees safe. Some examples shared with supervision staff include installation of Plexiglas panels at teller stations, floor markers that indicate appropriate distancing, removal of waiting area chairs and complimentary coffee, availability of hand sanitizer in bank and branch lobbies, mask requirements or recommendations for bank employees and customers who enter the lobby, the rearrangement of desks, and even allowing customers to keep the pen they have used to sign bank documents. Most financial institutions have indicated they adjusted well to operating under modified conditions during the past few months.

"Despite operational challenges, all bankers have remained committed to serving their communities by working to meet their customers' needs."

Many are not rushing to be among the first businesses to reopen within their communities and are cautiously evaluating their reopening plans.

The pandemic has led to instability in the economy and has affected a number of industries across the country and within our financial institutions' local communities. Ninth District bankers have expressed concerns regarding industries such as agriculture, tourism and hospitality, bars and restaurants, hotels, and rentals, as well as entertainment. As a result, more cautious and conservative lending practices are beginning to emerge. Bankers have been asking more questions and are evaluating borrowers more closely through, for example, more detailed reviews of repayment sources. Existing loan portfolios have also been the focus of increased monitoring. Bankers are considering what their local economies will look like in the coming months and are thinking about how long the effects of the COVID-19 pandemic will last.

As this public health crisis unfolds, the Federal Reserve's website offers resources to assist financial institutions in their continued support of customers and local economies. The COVID-19 Response page provides a number of types of resources, including the following:

- Federal Reserve statements, guidance, and rules to support financial institutions and the economy
- Details of the Federal Reserve's Funding, Credit, Liquidity, and Loan facilities
- General and Supervisory and Regulatory frequently asked questions

Included in these resources are several Supervision and Regulation Letters that the Federal Reserve has issued to provide guidance regarding significant matters related to the Federal Reserve System's supervisory responsibilities:

- SR 20-4 / CA 20-3: Work with Borrowers
- SR 20-6: Essential Workers
- SR 20-7 / CA 20-5: Small-Dollar Loans
- SR 20-9: CECL and CARES Act
- SR 20-10: CARES Act

The "Ask the Fed" program also is available to officials of member banks and to other insured depository institutions, bank and thrift holding companies, state bank commissioners, and state banking associations. Periodic Ask the Fed webinars, featuring Federal Reserve experts and guest speakers, cover the latest financial and regulatory developments. Recent sessions, which are recorded and available for viewing, have covered the Main Street Lending Program, updates for PPPLF participants, and loan modifications and reporting for financial institutions with customers affected by the coronavirus.

We encourage firms to contact Mergers & Acquisitions or Safety and Soundness staff at your Federal Reserve Bank for additional information if you have questions about the Federal Reserve's actions in response to COVID-19. ■

Ashley Brendemuhl is a Financial Analyst at the Federal Reserve Bank of Minneapolis.

Work from home, *Continued from page 12*

Adjusting your workspace

- Eyes should be level with the top of the screen.
- Your screen should be at least an arm's length in front of you.
- Make sure your forearms are supported.
- Knees should be at a 90 degree angle, thighs parallel to the floor and feet flat on the floor.
- Ensure your back is fully supported in your chair.

Utilize company technology

- Always use a VPN to connect to the network or ensure you're on a secure connection. Increased cyber threats are expected during this time.
- If available, forward your office extension to your mobile phone.
- If available, use instant messaging or video chat tools to stay connected with teams.
- Consider offering resources for parents with children at home.

Practice self-care

- Take breaks. Step away from your workspace by eating lunch in a different room, take a walk outside, or stand up and stretch. Get up at least once every hour and stretch several times a day.
- Try to plan social interaction in your day.
- Stay hydrated.
- Add a clock-out time to your calendar to avoid overworking.

Practicing good ergonomics is not only important to health and wellness, both physically and mentally, but it's crucial when trying to reduce risk as an employer. While it may be challenging to replicate the environment of a physical location, it is important to implement the good ergonomic practices that are already in place at the bank location. ■

Craig M. Collins is President of One-Beacon Financial Services, which is a BHCA Associate Member.

Managing costs, *Continued from page 13*

and thus negotiation leverage for the financial institution. We commonly recommend this holistic approach to our clients as it tends to yield the best results.

Financial institutions will do a great service to their customers and shareholders by closely examining and monitoring data processing costs. There is a wide range of pricing models in the industry. The best way to gain insight on comparable market prices is to conduct a competitive evaluation of alternatives. The financial institutions that take the time to do so and start the process 24 to 30 months prior to contract expiration will see the best outcome — in terms of finding solutions that effectively serve customers and address the institution's business requirements at the best price and terms.

This goal can be mainly achieved by either negotiating new technology contracts or renegotiating existing technology contracts. While some executives deem the technology review process painful, it nevertheless remains an important part of appropriate due diligence by the institution in a key area that is the foundation of efficient and cost-effective operations. Unless the financial institution enjoys annual contracts, most banks maintain multi-year contacts with the vendors of core processing and ancillary systems. With the opportunity to review alternative solutions and/or address costs only every five, seven or 10 years, it is wise to take advantage of the typical contract cycle to carefully review these business-critical applications. ■

Bryan T. Di Lella is Senior Vice President at ICI Consulting, a BHCA Associate Member. For more information, visit http://ici-consulting.com/ .

New Service: BHCA Market Dashboard

BHCA Market Dashboard to give members analytical data

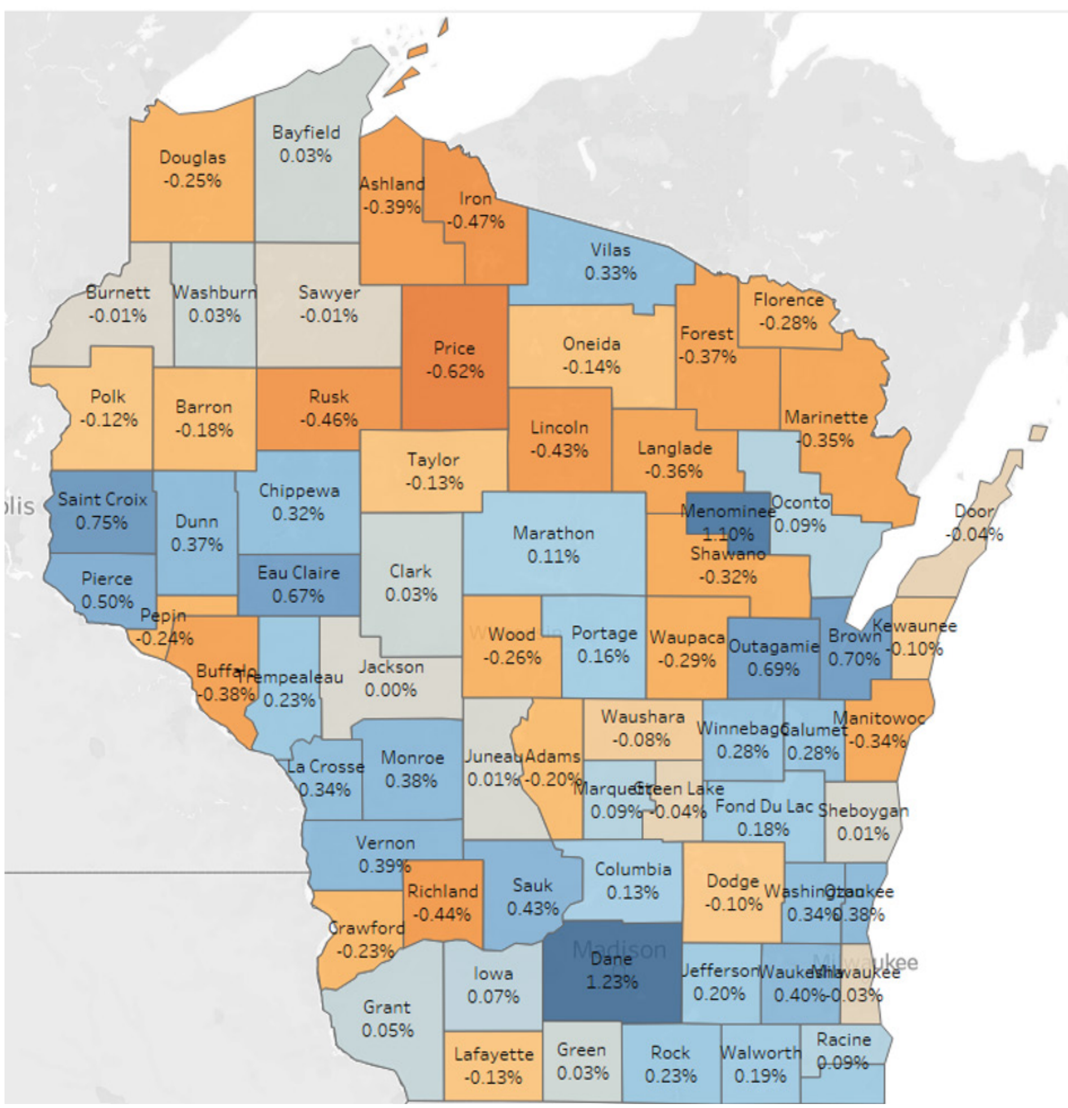
The presented information is designed to help you better understand your market and surrounding areas.

The Bank Holding Company Association is pleased to announce a new member benefit that will put valuable market data at your fingertips to use for planning, analysis and strategic decision-making. We call it the BHCA Market Dashboard.

Working in partnership with Baker Tilly, a BHCA Associate Member, holding company members will receive two reports per year via email. A summer report, which will come out in July, will include the following information:

- Unemployment rate
- Population numbers
- Compound annual growth rate of total population (percentage)
- Compound annual growth rate of population for people age 15-34 (percentage)
- Compound annual growth rate of population for people age 35-54 (percentage).

Population Growth (%) - WI



A winter report, schedule for January, will include the following:

- Unemployment rate
- Per capita income
- Median household income
- Median housing values
- Projected median housing values

Each report will present the data by county on colorful state maps depicting Wisconsin, Minnesota, North Dakota, South Dakota, Iowa and Illinois.

The information is designed to help you better understand your market and surrounding areas. Over time, the reports can be compared to identify trends.

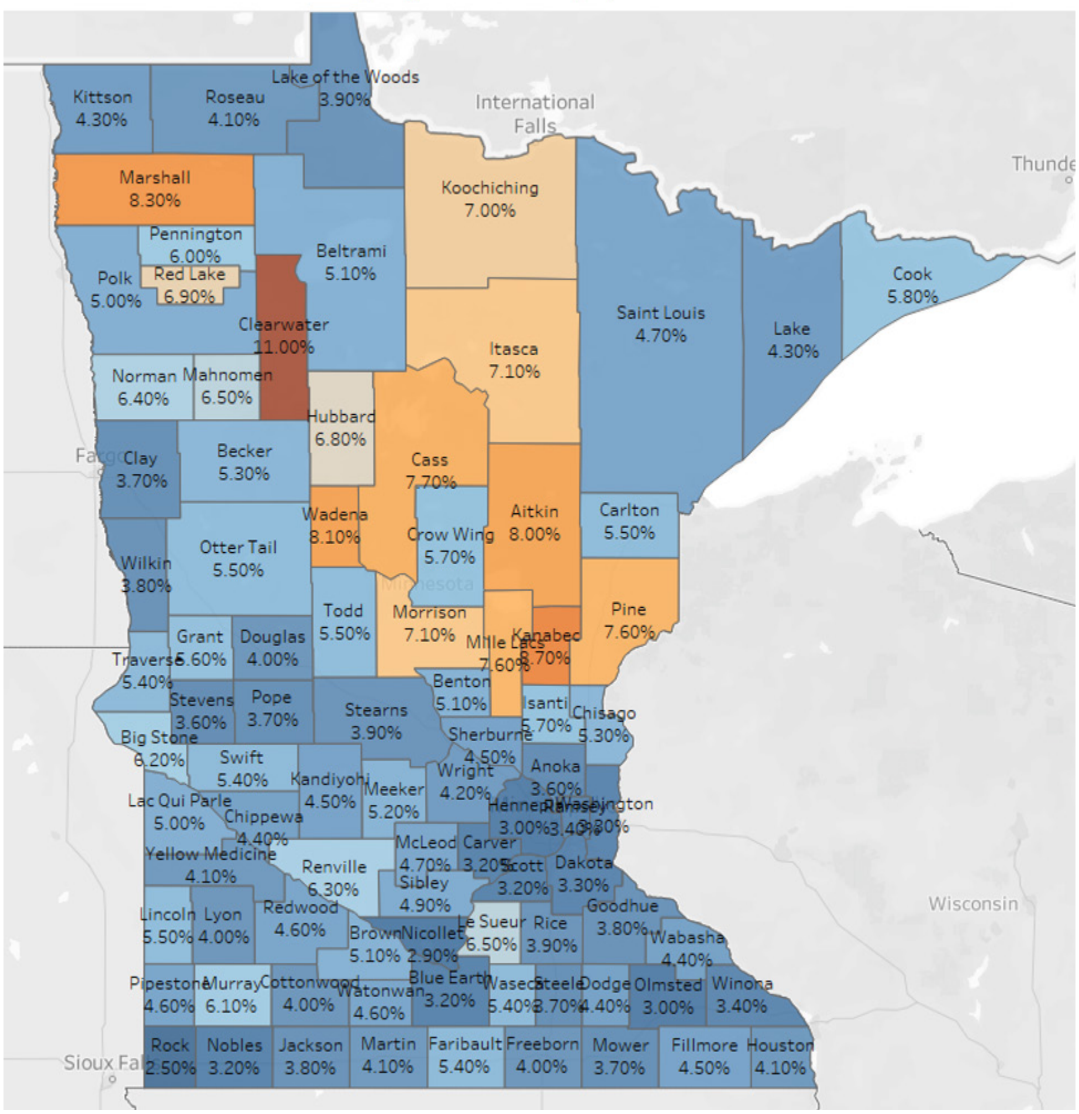
"This information can be used to analyze an institution's current operating region and customer profile," commented Sean Statz, FCA, who works in Baker Tilly's Madison, Wis., office. "The BHCA Market Dashboard will also be valuable to analyze opportunities for expansion, both organic and by merger."

"One of the primary purposes of the BHCA is to provide information that helps bank owners and holding company officers more effectively accomplish their goals," said BHCA Managing Director Tom Bengtson. "We are pleased to add this semi-annual BHCA Market Dashboard to our other channels of industry information, including our seminars, quarterly membership magazine and website."

BHCA Market Dashboard recipients also will have an opportunity to follow up directly with Baker Tilly to obtain customized information, such as deposit amounts by branch or deposit market-share by county.

BHCA holding company members should watch to receive their first BHCA Market Dashboard report in early July. If your email address has changed recently, please alert the BHCA by sending an email to Paula@theBHCA.org. ■

Unemployment Rate (%) - MN



Holding Company Transaction Report

Here are selected recent bank holding company filings with the Federal Reserve Banks of Chicago, Minneapolis, Kansas City and St. Louis.

▷ First Equity Corp., Skokie, Ill., authorized to merge with Northwest Equity Corp., Buffalo Grove, Ill., and thereby acquire 1st Equity Bank Northwest.

▷ First State Holding Co., Lincoln, Neb., authorized to acquire Schneider Bancorporation, Plattsmouth, Neb., and thereby acquire Plattsmouth State Bank.

▷ Ally Financial, Inc., and IB Finance Holding Company, LLC, both of Detroit, filed to acquire Cardholder Management Services, Inc., Woodbury, N.Y., and to indirectly acquire Merrick Bank Corporation, South Jordan, Utah, and thereby engage in operating an industrial bank. In addition, Ally Financial, Inc. and IB Finance Holding Company, LLC's subsidiary bank, Ally Bank, Sandy, Utah, filed to merge with Merrick Bank Corporation.

▷ Arbor Bancorp, Inc., Ann Arbor, Mich., filed to acquire FNBH Bancorp, Inc., and thereby acquire First National Bank in Howell, both of Howell, Mich.

▷ ChoiceOne Financial Services, Inc., Sparta, Mich., filed to merge with Community Shores Bank Corporation and thereby acquire Community Shores Bank, both of Muskegon, Mich.

▷ Matthew J. Lujano, Carroll, Iowa, filed to acquire 10 percent or more of Halbur Bancshares, Inc., Westside, Iowa.

▷ Stearns Financial Services, Inc., Employee Stock Ownership Plan, Saint Cloud, Minn., filed to acquire additional stock and increase its ownership interest up to 20.66 percent of Stearns Financial Services, Inc., and thereby increase its control of Stearns Bank NA, Saint Cloud; Stearns Bank of Upsala, NA, Upsala, Minn., and Stearns Bank of Holdingford, NA, Holdingford, Minn.

▷ Notice submitted by Katherine Rose Rainbolt and others, all of Denver, Colo., to acquire shares of BancFirst Corporation, Oklahoma City, parent of BancFirst, Oklahoma City, and Pegasus Bank, Dallas; and to be approved as members of the Rainbolt Family Group, which controls BancFirst Corporation.

▷ PBT Bancshares, Inc., McPherson, Kan., filed to acquire Community Bank of the Midwest, Great Bend, Kan.

▷ ACB GST Trust, Aaron Bastian, trustee, and others, all of Wichita, Kan., filed to acquire shares of Fidelity Financial Corporation, parent of Fidelity Bank of Wichita, both of Wichita.

▷ Southern Bank, Poplar Bluff, Mo., authorized to merge with Central Federal Savings and Loan Association, Rolla, Mo., and to retain the acquired facility as a branch.

▷ Dacotah Bank, Aberdeen, S.D., filed to merge with First State Bank of Claremont, Groton, S.D., and to establish branches. In addition, Dacotah Bank filed to purchase certain assets and/or assume certain liabilities of Stohr Insurance Agency, Groton.

▷ MidCountry Acquisition Corp., Minneapolis, authorized to engage in nonbanking activities through the formation of CB Shared Services, Inc., Minneapolis, and to provide information technology, human resources, Call Report preparation, and compliance services to MidCountry Bank, Bloomington, Minn., and other subsidiary banks of holding company affiliates.

▷ Koda Bancor, Inc., Drayton, N.D., filed to acquire Wall Street Holding Company and thereby acquire Bank of Hamilton, both of Hamilton, N.D.

▷ Waumandee Bancshares, Ltd., Waumandee, Wis., filed to acquire Union Bank of Blair, Wis.

▷ CBI Bank & Trust, Muscatine, Iowa, authorized to merge with Walcott Trust and Savings Bank, Walcott, Iowa, and thereby establish branches.

▷ Jeffrey L. Laudermilk, Sterling, Kan., filed to acquire shares of Coronado, Inc., parent of First Bank, both in Sterling, Kan.

▷ Tri Valley Bancshares, Inc., Talmage, Neb., filed to acquire Eagle Bancshares, Inc., parent of Eagle State Bank, both in Eagle, Neb.

▷ Notification submitted by the Henry Southway S Corporation Family Trust, Alamosa, Colo., to acquire shares of Alamosa Bancorporation, LTD.

▷ Piper Holdings, Inc., Covington, Ind., filed to acquire SBB Bancshares, Inc., and thereby acquire State Bank of Burnettsville, both of Burnettsville, Ind.

▷ Bath State Bancorp Employee Stock Ownership Plan With 401(k) Provisions, Bath, Ind., filed to become a bank holding company by acquiring up to 30 percent of Bath State Bancorp, Bath, and thereby acquiring Bath State Bank.

▷ Notice filed by Hoyne Savings, MHC and Hoyne Financial Corporation, both of Chicago, to acquire Loomis Federal Savings and Loan Association, a federal mutual savings association.

▷ Notice by Gerald F. Fitzgerald, Jr. and others to retain and acquire 25 percent or more of LaSalle Bancorp, LaSalle, Ill., and thereby control Hometown National Bank, LaSalle. ■

New to BHCA

The Bank Holding Company Association welcomes these new Associate Members:

Baker Tilly
Tim Kosiek, partner
Mark Boettcher, partner
Sean Statz, senior manager
Madison, Wis.

Baker Tilly is a leading advisory, audit, accounting, tax and assurance firm dedicated to building long-lasting relationships. We have a robust financial services industry practice. Baker Tilly is here to help you win now and anticipate tomorrow. We have only one agenda: Yours.

ICI Consulting
Doug Krukowski,
senior vice president
Bellevue, Wisconsin

ICI has an amazing team of experienced fintech professionals who partner with our financial institution clients to ensure they are using the best core solution to support their strategic plans, maximize the cost effectiveness of all technology vendor relationships, and improve the quality of those relationships and services delivered.

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has been serving
bank holding
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directors, officers and
vendors who attended
a BHCA event in the
past two years

The BHCA exists to provide education and business connections critical to the vitality of bank holding companies.

Insights | Networking | Seminars

CONTACT US!

Tom Bengtson, *Managing Director*

952-835-2248 or info@thebhca.org

Modest dues based on the size of your organization.

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