The Arizona Banker

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Official Publication of the Arizona Bankers Association

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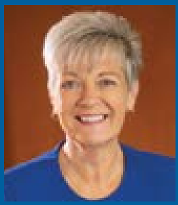

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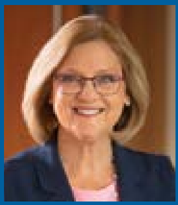

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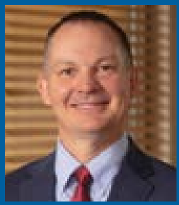

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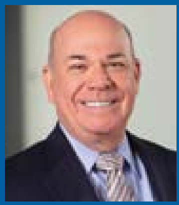

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PRESIDENT'S MESSAGE

Interview with Paul Hickman, president and CEO, Arizona Bankers Association

Arizona Bankers Association's Paul Hickman Dishes on How the Sector Fared in 2020

By Dale Brown — Research Director, Phoenix Business Journal
First appeared in the Phoenix Business Journal on December 10, 2020

THE CORONAVIRUS PANDEMIC HAS had ripple effects across all sectors in 2020, and the banking and financial services business has had its share of bumps and bruises.

Across the Valley, many brick-and-mortar bank branches closed amid the COVID-19 stay-at-home orders, and some have been shuttered permanently as a result. Still, the sector has also been buoyed by the continued surge in real estate activity in the Valley. At the same time, the SBA-administered the Paycheck Protection Program, despite some instances of misuse, kept bankers extremely busy.

Meanwhile, some out-of-state bank brands started bulking up operations in the Valley, and one of the biggest M&A deals of the year was announced in November when Pittsburgh-based PNC Financial Services agreed to buy the U.S. banking arm of European financial giant BBVA.

We caught up with Paul Hickman, president and CEO of the Arizona Bankers Association, to weigh in on how the industry is doing.

Has the Valley's residential buying boom caused area banks to tighten or change their lending criteria?

Not in any fundamental sense. The housing-induced real estate crash of 2008-2009 resulted in the loss of many financial institutions and the decision to exit the residential mortgage lending line of business by many others. The remaining residential mortgage lending industry already had much tighter underwriting standards than the industry-at-large. The regulations put into place per the Dodd-Frank Act of 2010 leave little latitude for banks to loosen residential mortgage lending criteria now.

How has the pandemic impacted mortgage lending specifically?

It has significantly increased the volume of mortgage lending, particularly in the Phoenix MSA. It has also created a demand-driven increase in price — somewhat abetted by shortages of lots and new building materials.

Where do you see interest rates heading over the next year if the pandemic continues?

It's important first to note what the pandemic has done to interest rates already. The effective federal funds rate has cratered nearly 150 basis points since February. In November, the Fed announced they would leave rates where they are for the time being. And where they are is essentially at

How healthy are Arizona's banks? Arizona's banking system is healthy and resilient. It is well-positioned to weather the current storm. The regulatory reaction to the Great Recession of 2008 put the industry here in a much stronger position, particularly in terms of capital buffers and liquidity, than a decade ago.

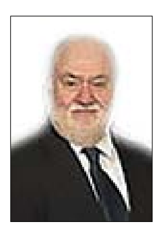
zero. It's also worth noting that interest rates are currently tied almost exclusively to the pandemic's economic fallout. It is entirely fair to assume that those rates will begin to rise once the vaccine starts to ameliorate current economic indicators. Personally, I don't see that happening until the first quarter of 2022 at the earliest.

How healthy are Arizona's banks?

Arizona's banking system is healthy and resilient. It is well-positioned to weather the current storm. The regulatory reaction to the Great Recession of 2008 put the industry here in a much stronger position, particularly in terms of capital buffers and liquidity, than a decade ago. The $64,000 questions for the banking industry now are how long will the pandemic weigh down the broader economy? And how much more help will the federal government provide in what's left of the current administration and into the new administration early next year? The answer to the first question depends on how fast the vaccines can penetrate our population, which turns on how many people will get immunized and how soon. We hope that there will be another round of stimulus in the near-term to bridge us until we have a significant portion of our population vaccinated and, therefore, back at work and play.

Does Arizona have the right mix of large, national scale banks and community banks with a better knowledge of the local scene?

Is there room for more local banks, and how have recent deals impacted that? Yes. While it is not the largest banking sector of states of our size, it is diverse, measured by asset size. All three of the "money center" banks larger than $1 trillion operate here. We have a significant number of regionals and super-regionals. And we are holding our own with community banks, Community Development Financial Institutions and credit unions with assets below $1 billion. There is plenty of room for more local banks. We have two community bank de novos working their way toward opening sometime next year (Scottsdale Community Bank and Gainey Business Bank). That said, we are not exempt from the accelerating M&A trend sweeping the country for the last several years. This year we saw Arizona Bank & Trust take over the assets and liabilities of Johnson Bank, and the First Citizens merger with CIT impacted us. (Keeping in mind that CIT acquired Mutual of Omaha Bank last year, which had a significant footprint here.) It would appear that until the de novos come online, we will go into 2021 with two fewer banks than we started the year, which will take us from 65 to 63 banks stretching from Phoenix to Flagstaff, Tubac to Tuba City — and all points between.



Dale Brown — Research Director, Phoenix Business Journal

First appeared in the Phoenix Business Journal on December 10, 2020

By Jim Edwards

Banking 2020: Expect the Unexpected

WHETHER IT'S CORONAVIRUS, MASS PROTESTS, DESTRUCTIVE wildfires or even "murder hornets," one thing we've learned in 2020 is to expect the unexpected. There's no one webinar we can take to help us sift through the virus's confusing effects. There's no BankExec simulation for civil unrest.

Responding well to crises starts long before the moment of crisis. It comes in how our teams and we are formed. To respond well, we dive deep into leadership training. We build management teams of diverse strengths. We communicate clearly and listen carefully. There's no magic formula, but we can recognize common patterns because crises are part of our experience as bankers. They come more frequently than you might think.

Looking back on the year, leading a bank through the pandemic onset as we delivered the Paycheck Protection Program funds to our Georgia communities is a highlight of my career. Our team showed up for small businesses — often not in person, but from a kitchen table late on a Sunday night — delivering in the heat of the moment. Our whole industry can be very proud. An ABA analysis shows banks were responsible for 94% of the 51 million jobs supported by the PPP.

Meanwhile, we saw years of digital transformation accelerated into a few weeks. We were fortunate at United Bank to have made timely investments in technology, such as our deployment of interactive teller machines, which helped us serve customers beyond bank lobbies. With more than four in 10 consumers saying they will reduce branch visits even after stay-at-home orders are withdrawn, many of these changes are here to stay.

In 2020, we also saw another crisis: our country's painful examination of conscience around race. We need to be part of this essential national conversation because banks are central to solving problems in the communities we serve.

The good news is that ABA was already moving to respond to these challenges long before the protests we saw this summer. While we have room for improvement, we also have much to be proud of as an industry.

What will come out of these crises, for the men and women working at banks like mine and yours, is that they will emerge on the other side of this difficult period and realize: Crises are when you grow. Crises are when you can make the most difference to your customers and your organization.

Crisis moments are an amazing time to watch leaders step up — we, as CEOs, can see who on our teams can run the play, dig in and deal with stress. Through leadership development programs at banks like mine and the training and executive education ABA provides, nurtured leaders are well-positioned for peak performance in these difficult times.

What will come out of these crises, for the men and women working at banks like mine and yours, is that they will emerge on the other side of this difficult period and realize: Crises are when you grow. Crises are when you can make the most difference to your customers and your organization.

I know bankers are ready to adapt and directly confront what is ahead, to make our industry better and our country better, too. We accept that challenge.

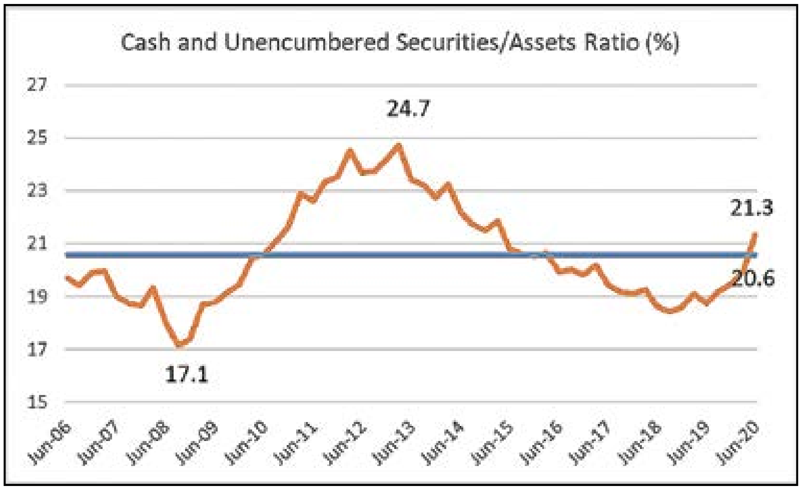
We've all been stretched in 2020. What I think we've found is that we're much more resilient, capable and open to new ideas.

ABA Chairman Jim Edwards is CEO of United Bank, Zebulon, Georgia. This article also appeared in the ABA Banking Journal.

Tactics for Navigating Tectonic Shifts in Liquidity

By Scott Hildenbrand, Piper Sandler

THIS YEAR HAS PRESENTED BANK MANAGEMENT TEAMS with many issues to juggle, many of which seemingly pull in opposing directions, and most of which were not firmly on the radar to start the year. Such is life in 2020. Some banks' primary concerns stem from the fact that the industry has seen a shift in liquidity. Balance sheets are flush with deposits relative to recent periods, while securities holdings have come down relative to assets. The build-in balance sheet liquidity has come in the form of cash, with an unusually high 7.6% of assets held in cash and equivalents as of June 30.



Source: S&P Financial, Banks and thrifts with assets between $250 million and $25 billion

This drastic change in the liquidity picture is best encapsulated by the Cash and Unencumbered Securities-to-Assets Ratio's significant uptick. The ratio has surpassed the average over the past 14 years of 20.6%, steadily climbing toward the high of 24.7% last seen in 1Q13.

Some institutions feel more comfortable with investments that maintain maximum flexibility in the future — sale-ability and pledge-ability — with lower yields as a trade-off. Other institutions have looked to extend their investment portfolios further out on the curve to increase yield while mitigating tail risk by match funding with 5+ year structures at historically low rates.

While every institution is unique, many banks have responded to the shift in liquidity by asking two questions: how does this affect the asset side, and what are the options on the liability side? On the asset side, management teams wonder what to do with excess cash in a world where most bond yields are disappointingly low. Even though liquidity profiles appear strong and are trending stronger, economic uncertainty creates unpredictability in depositor behavior.

As such, some institutions feel more comfortable with investments that maintain maximum flexibility in the future — sale-ability and pledge-ability — with lower yields as a trade-off. Other institutions have looked to extend their investment portfolios further out on the curve to increase yield while mitigating tail risk by match funding with 5+ year structures at historically low rates. For instance, banks have worked with some firms to utilize their inexpensive, longer-dated funding mechanisms at attractive rates.

Many corners of the banking industry are concerned that low rates, slower loan origination, and excess liquidity trends are here to stay for the foreseeable future and have begun searching for loan surrogates. Allowing these banks to extend their liability portfolio's duration at a scalable level opens the door to more asset purchase strategies. We have seen two specific asset strategies gain momentum: exploring community and regional bank subordinated debt as an investment option and analyzing how to invest in municipals without ruining their interest rate plan. As an alternative to extending the liability portfolio, some institutions have swapped fixed rate municipals to floating, thus obtaining an attractive yield with reduced duration risk and protecting Tangible Common Equity. Exploring risk/reward profiles of earning assets is nothing new to balance sheet managers, but the environment has certainly evolved since the start of 2020.

Managing excess liquidity while planning for interest rate risk management has also become slightly more complicated on the liability side. How does a bank choose from the various funding options and hedging strategies available? The decision-making process must consider balance sheet composition (i.e., the availability of liabilities to hedge), impact to earnings and capital (in addition to liquidity) from the strategy, and practical applications, such as hedge accounting.

It's generally recommended for accounting simplicity and hedging flexibility to first evaluate liability hedges when attempting a shift in interest rate risk profile. Many institutions

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Banks can leverage the new accounting guidance to change the hedged exposure from wholesale funding to deposits without a redesignate event, allowing the bank to pay down wholesale borrowings.

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took advantage of both spot-starting and forward-starting cash flow hedges over the past year. Forward-starting swaps on forecast borrowings allow the bank to purchase longer duration assets today and know they will maintain the future's attractive spread. For example, offerings like IntraFi Network's (formerly Promontory Interfinancial Network) IntraFi Network Deposits give banks the ability to launch these funding contracts six months to one year in the future while locking in their rate now to hedge against any increase in funding costs before the launch date. This allows the maximum bank flexibility in planning its liquidity now and well into the future.

But what about banks flush with liquidity with no future funding needs anticipated? Part of the answer arose from a surprising place: dealing with yet another stress source — the LIBOR transition. The FASB released ASC 848 Reference Rate Reform in March 2020 to address potential concerns about the impact of the upcoming LIBOR transition on hedge accounting. Although LIBOR fallback is expected at year-end 2021, guidance is applied immediately to help users explore potential alternative contracts and rates. It allows banks to be proactive in dealing with LIBOR cessation and identify a new hedged exposure. The bank can then modify the hedge to match the new (non-LIBOR) exposure, adjusting the fixed-rate or adding a floating rate spread to keep the transaction NPV-neutral. Finally, the bank can amend their hedging memo to reflect the new exposure, and the hedge relationship continues without de-designation.

There is a positive balance sheet strategy development that comes from this guidance. By allowing banks to consider a change to a non-LIBOR hedged item, it essentially provides added flexibility to banks that have implemented strategies using wholesale funding paired with swaps, a strategy that many banks smartly continue to explore. The guidance allows those banks to consider replacing the existing funding with other sources for cheaper and more customizable wholesale borrowings or even deposit products, without impacting hedge accounting. These products allow a bank to replicate the previous funding instruments' details, but at a considerably discounted cost. Banks can leverage the new accounting guidance to change the hedged exposure from wholesale funding to deposits without a redesignate event, allowing the bank to pay down wholesale borrowings. For banks that now have many more deposits than when they first implemented the strategy, reducing their current need for wholesale funding, this is a welcome change in funding source that maintains the interest rate protection they continue to need.

This rule can be applied in a variety of different ways. Banks can make changes to the interest rate index, the spread to that index, the reset period, pay frequency, business day conventions, payment and reset dates, the strike price of an existing option, the repricing calculation, and may even add an interest rate cap or floor that is out-of-the-money on a spot basis. On the other hand, some aspects of the hedge are unrelated to the reference rate reform: an institution cannot effect a change to the notional amount or maturity date, change from an interest rate to a stated fixed rate, or add a variable unrelated to LIBOR.

Ultimately, none of these options singlehandedly solve the problem of too much liquidity with too few safe places to deploy them while earning an attractive yield and protecting against the eventuality of rising rates. Like life in 2020, the key is to deploy various creative tactics to weather the storm and emerge a stronger institution.

Scott Hildenbrand
Managing Director, Head of Balance Sheet Analysis and Strategy and Head of Piper Sandler Hedging Services


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BSA/AML Compliance Strategies in a COVID-19 Environment

By Elizabeth K. Madlem, Compliance Alliance

THE FORMAL STUDY OF RISK management has been around since World War II and involves learning how to identify, assess and manage financial risks for an organization. It has long been associated with market insurance, protections from accidents and the use of derivatives. It evolved into contingency planning, analyzing various risk prevention activities and portfolio management. Operational and liquidity risks emerged as a formalized concept in the 1990s as financial institutions intensified their market risk and credit risk management activities. Risk management has become a corporate affair — it is a major player in an institution's management and monitoring policy decisions. The concept of risk began to cover pure risk management, technological risk management models and operational risk. And as the identification of new risks emerged, so did an expanded concept of operational risk.

Fraud risk is a form of operational risk. It is the risk to current or projected financial conditions and resiliency arising from inadequate or failed internal processes or systems, human error or misconduct, or adverse external events. Fraud historically has been known to increase during disaster-related events. The unprecedented COVID-19 pandemic is no exception to this increase. Fraud can be characterized as an international act, a misstatement or omission to deceive others with the sole purpose of a victim suffering a loss or a perpetrator achieving gains. It can be internal or external, but the key takeaway with fraud is that financial institutions subject to the Bank Secrecy Act are mandated to keep up an anti-money laundering compliance program and process. Meeting BSA and AML obligations during a pandemic has proven challenging. It has forced financial institutions to adopt a new "business-as-usual process" that magnified challenges for financial crime management programs within institutions of all asset sizes.

Financial institutions, despite any differences in scale, are all facing work from home shifts, evolving customer behaviors and expectations, along with a rise in pandemic-related fraud patterns. The combination of financial and health risks opens vulnerabilities and creates more opportunities for fraudsters. The Agencies recognize that the current environment is (1) unprecedented and (2) requires flexibilities. Back on March 16, 2020, FinCEN released a state to financial institutions regarding the impact of the COVID-19 pandemic. It encouraged financial institutions to communicate their concerns related to the pandemic and, above all things, to remain alert to illicit financial activity. It encouraged financial institutions that had concerns over potential delays in filing any required BSA reports (CTRs and SARs) to contact

FinCEN and their functional regulator as soon as practicable.

Second, FinCEN outlined the emerging trends connected with COVID-19: impostor scams, investment scams, product scams and insider trading. Financial institutions are reminded to review FinCEN's 2017 advisory FIN-2017-A007 for descriptions of other relevant typologies, which included benefits fraud, charities fraud and cyber-related fraud. Entering "COVID19" in Field 2 of the SAR-template when reporting suspicious transactions linked to COVID-19 was highly encouraged. But key pressure points continued to emerge in the new environment for financial institutions. Not only were financial institutions required to identify fraudulent and potentially suspicious activity outside of normal trends, but they also had to detect disaster-related fraud, increase their protection of elderly customers and report on COVID-19 trends and losses. This is not to say financial institutions have not risen to the challenges.

FinCEN's April 3, 2020, notice encouraged financial institutions to "consider, evaluate, and, where appropriate, responsibly implement innovative approaches to meet their BSA/anti-money laundering compliance obligations." Institutions have considered the health and safety of their employees and customers. They have maintained the financial system's stability, managing and mitigating the risks of money laundering and fraud losses. But what considerations should financial institutions continue to focus on as they navigate BSA/AML compliance?

Financial institutions need to consider, evaluate and determine what a risk-based approach means for their institution.

1. **Contingency Plans —** Financial institutions need to be anticipating best and worse case scenarios. How will the financial institution reestablish its BSA/AML program and obligations after pivoting from remote work and returning to normal? If the pandemic continues, what longer-term necessities and measures need to be taken to maintain or increase the financial institution's BSA/AML practices?

2. **Customer Due Diligence —** COVID-19 has transitioned rapidly into more than a disease. It has also impacted online banking. Customers are expecting banks to go even more digital via their online channels. This has not been without changes in expected activity for both individuals and businesses. Has an institution increased its daily transaction limits to meet increased demands for additional cash? Has cash hoarding strained a bank's CTR filings? Did the organization experience an increase in false positives for fraud due to changing customer behaviors? Financial institutions need to continually evaluate their programs to grab control of the challenges and added workload to their BSA/AML staff.

3. **Risk Assessments —** No longer something for larger or more complex financial organizational structures, the need for risk assessments has increased. Customers have changed the scale of their operations. Under the CARES Act, programs like the Paycheck Protection Program have flooded lending and operations divisions within the bank, which inhibits adequate oversight. Risk assessments need to continue to be reassessed on both a customer base and organizational level to reconsider customer relationships' nature and purpose, continue that development of customer risk profiles, and reassess bank operational systems and controls. This was reemphasized in the update to the FFIEC BSA/AML Examination Manual released April 15th.

4. **Coordination and Communication —** Identifying logistical challenges is one aspect; effectively communicating them to bank staff is another. Internal communication is essential. Impactful and cohesive running of compliance teams will aid financial institutions in minimizing the challenges of administering an effective BSA/AML compliance program during a pandemic. A risk-based approach with diligent adherence to a bank's BSA obligations will define compliance problem areas and assist financial institutions in mitigating their risks.

5. **Technology —** FinCEN's April guidance encouraged financial institutions to be innovative through the deployment of "novel technologies." While this encouragement has many possibilities, it does create challenges for financial institutions. Banks still must maintain prudent evaluations whenever implementing innovative approaches to current BSA/AML processes. Financial institutions need to maintain robust oversight of their vendor management relationships with third-party providers, especially related to BSA/AML program implementation. Safety, soundness and consumer protection are heavily impacted by technology, increasing a bank (and regulator's) focus on monitoring.

The COVID-19 pandemic has introduced or increased emphasis on a risk-based

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approach to BSA compliance. It has supported flexibilities as promulgated by FinCEN and other agencies. While regulators have highlighted the difficulties, realized or otherwise, little reassurance or solutions have been offered by financial institutions. For this reason, financial institutions need to consider, evaluate and determine what a risk-based approach means for their institution. Criminals are luring targeted, vulnerable individuals and companies with an even stronger virtual presence. These attempts aim to undermine the bank's due diligence and "know your customer" processes within a remote environment. It is imperative that financial institutions review FinCEN and other Agencies' releases on advisories highlighting common typologies used in fraud, theft and money laundering activities related to the pandemic. The significant increase in online and digital transactions coupled with cyberattacks and related fraud will continue to impact remote platforms and processes. Understanding the new and expanding definition of fraud risk will force financial institutions to remain diligent with BSA/AML controls and procedures related to the pandemic.

Elizabeth K. Madlem, is the Vice President of Compliance Operations and Deputy General Counsel at Compliance Alliance. In the past, she served as both the Operations Compliance Manager and Enterprise Risk Manager for Washington Federal Bank, a $16 billion dollar organization headquartered in Seattle, Washington.

She has industry expertise and real-world solutions surrounding bank-enterprise initiatives and knowledge of contract law and bank regulatory compliance. An attorney since 2010, Elizabeth was a Summa Cum Laude, Phi Beta Kappa, Delta Epsilon Sigma graduate of Saint Michael's College in Burlington, Vermont, and a Juris Doctor from Valparaiso University School of Law in Indiana.

As the Vice President of Compliance Operations, Elizabeth will be overseeing C/A's day-to-day operations of the hotline, as well as leading our education initiatives. Elizabeth plays an important part in all operational areas of C/A.

The COVID-19 pandemic has introduced or increased emphasis on a risk-based approach to BSA compliance. It has supported flexibilities as promulgated by FinCEN and other agencies.

2020 Election Recap and 2021 Session Preview

By John Fetherston, Veridus

WHILE SOMETIMES IT FELT LIKE IT would never arrive, the 2020 election is over and Arizona faces a political reality that is in some ways very different but in many ways exactly the same. Joe Biden won Arizona and became the first Democratic presidential candidate since Bill Clinton, and the second since 1952, to carry our state. With Mark Kelly's victory over Martha McSally, Arizona has, for the first time in modern history, elected two Democratic U.S. Senators. Add to that Anna Tovar's election to the Corporation Commission and Arizona starts to look pretty blue at the top.

However, that story changes significantly farther down the ballot. Despite record amounts of money spent, Arizona Democrats only managed to net one legislative pickup. Challenger Christine Marsh defeated Senator Kate Brophy-McGee to reduce the Republicans' State Senate margin to 16-14. Democrats did manage to elect Judy Schwiebert to the State House of Representatives from District 21, but they lost District 4 Representative Geraldine Peten to newcomer Joel John, leaving the House Republican majority at 31-29. Maricopa County elections were even worse for Democrats, with that party failing to win any new seats and seeing County Recorder Adrian Fontes lose to Republican challenger Steven Richer.

What does this mean for the 2021 legislative session? House Speaker Rusty Bowers and Senate President Karen Fann won reelection to their leadership posts, leaving control of the legislature in familiar hands. With Governor Doug Ducey still on the ninth floor for another two years, the Arizona Legislature is still firmly under Republican control. However, the Senate majority now has a margin as slim as in the House. Further, with the loss of Brophy-McGee to Marsh and Senator Heather Carter in her primary to Nancy Barto, there is now a notable lack of moderate Republicans.

Of course, the elephant in the room for the next session is the global coronavirus pandemic. With cases on the rise and widespread vaccination months away, it's anyone's guess how the legislature will handle legislating in the time of COVID. One bright spot is the state's fiscal picture: despite gloomy predictions earlier this year, revenue streams remain relatively strong. Arizona seems to have avoided the bleak budget realities faced by other states. As of November, legislative budget analysts predicted a $411 million ending balance for the next fiscal year. This means many legislators' budget requests, dashed by fiscal concerns and the abbreviated 2020 session, may get another chance next year.

What will happen come January? Will the legislative session proceed as normal, albeit with additional COVID-19 safety protocols? Or will legislators again pass a skinny budget and adjourn until later in the year? As with most things related to the pandemic, only time will tell.

Giving Feedback Doesn't Need to Be Stressful for a Manager

By Bob Greening, Vice President, USource

AN IMPORTANT ELEMENT OF EMPLOYEE DEVELOPMENT IS receiving relevant and timely feedback. Giving feedback is not easy for many managers, and can be downright stressful to the point where it is even avoided, leading to much more stress down the road! Listed below are helpful tips on providing effective feedback while reducing stress and anxiety for both the manager and the employee.

Establish Trust

A work environment where everyone feels respected and has a sense of self-worth enhances job motivation and commitment. Employees who feel valued are more willing to learn from feedback rather than discount it. Before providing feedback, it is important to develop a positive relationship with your employee. An employee who has experienced multiple positive moments with their manager will grow to trust that manager and be more receptive to constructive feedback.

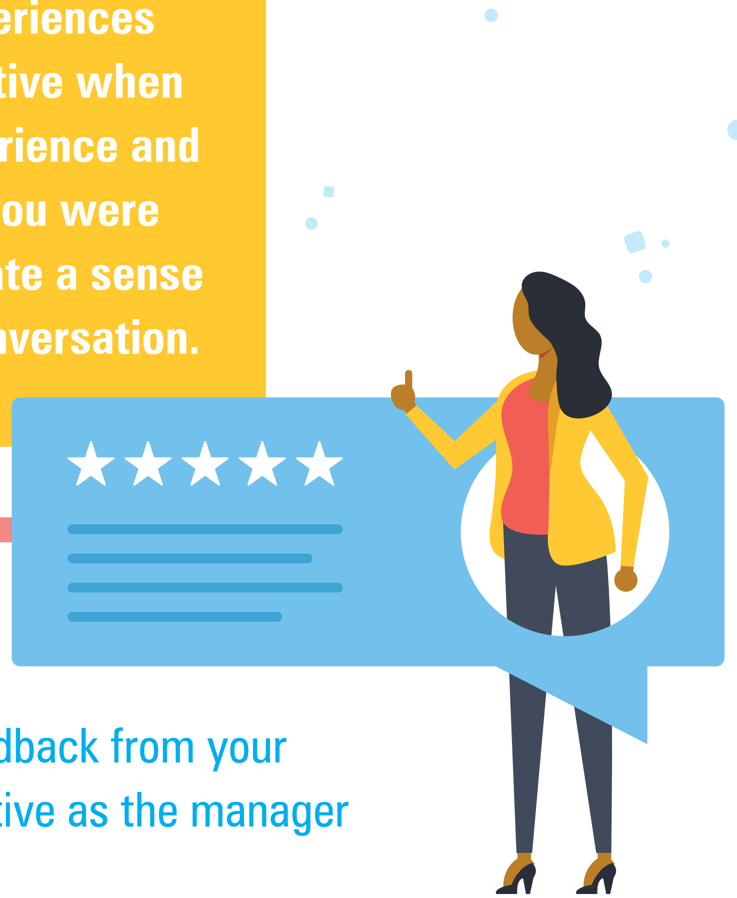
Provide Out of Kindness and Concern

Do you give feedback to justify your own behavior, to appease another person or to elevate your self-importance? Or, do you have a genuine concern and sense of responsibility for the employee, desiring to guide and mentor? Feedback should be given from a place of caring for your employee's learning and growth.

Keep Anger Out of It

Too often, feedback is given out of frustration and anger. If this is the case, take a step back and reflect again on the purpose of the

Draw parallels to your own experiences Providing feedback is more effective when you can relate it to your own experience and growth. If you can convey that you were once in a similar position, you create a sense of emotional connection to the conversation.



- Pay attention to their reaction
- Be Specific
- Limit your focus
- Give feedback from your perspective as the manager

feedback before providing it. Confirm the feedback is based on data and insight rather than negative feelings. Remember, feedback should be about helping someone to succeed.

Pay Attention to Their Reaction

Listening is key to facilitate trust and improve communication. Observe body language, tone, and emotions while being flexible and ready to adjust based on the other person's response. The most effective feedback becomes a two-way conversation.

Be Specific

The more the individual can recall the specific event, the more likely they are to learn from the feedback, clarify the actions and behaviors, and impact other individuals and the overall organization. Always try to provide feedback as close to when the incident occurred as possible. Giving feedback about a specific event months after it happens can be less accurate and confusing to the employee.

Focus on the Behavior, Not the Person

Focusing feedback on just the situation rather than the individual separates the problem from the person. When the receiver is less likely to feel personally confronted, they are more likely to accept constructive feedback.

Give Feedback From Your Perspective as the Manager

Try not to give feedback on behalf of others. If you have not observed or noticed the behavior, it becomes difficult to explain what is and is not working. Saying that you heard about a specific situation moves the focus from the issue to "who told you," which can cause the opportunity for the feedback to be genuinely heard to be lost.

Draw parallels to your own experiences Providing feedback is more effective when you can relate it to your own experience and growth. If you can convey that you were once in a similar position, you create a sense of emotional connection to the conversation.

It also starts to build a mentor-mentee relationship, causing the feedback to be viewed as advice.

Limit Your Focus

Ideally, a feedback session should focus on no more than two issues to reduce the person's risk of feeling attacked and demoralized. Focus on how behaviors and actions can be changed.

Most of us are familiar with how good it feels to receive the kind of feedback that helps us grow or acknowledges the growth we've already achieved. As the manager giving feedback, remember those times when you received positive, motivating feedback. Reflecting on your own experiences will ensure your feedback comes from a place of kindness and positive intent. As a manager, you want your employees to excel to the best of their abilities, which is accomplished through proper feedback in the right form!

2021: An Odyssey Away from LIBOR

By Tim Dominguez, Associate General Counsel, Compliance Alliance

THE 1980S WERE A MUCH DIFFERENT time than today. Many of us remember or are too young to remember an age where the typical computer only had 64 kilobytes of memory or where cell phones weighed as much as 20 pounds; no one anticipated we would ever call them smart any time soon. The 1980s were also a period of change for global economics and banks. In 1986, the London Interbank Offering Rate (LIBOR) was officially introduced and published as an interest rate benchmark for widespread usage by financial and non-financial firms in response to banks trading in new interest markets. However, over three decades later, after determining that LIBOR was vulnerable to interest rate manipulation, it was announced that the benchmark rate would be discontinued beginning Dec. 31, 2021. This discontinuation meant that many businesses, banks included, would have to take the arduous transition away from using LIBOR in the future and address existing products that already use it.

Under normal circumstances, 2020 was supposed to be a significant year in the transition away from LIBOR. However, the financial impact of the COVID-19 pandemic may have caused a shift in priorities for many banks. While regulators have provided a temporary reprieve in several banking areas for this year, it still stands today that LIBOR will no longer be here after 2021. To underscore the crucial need to address this issue by that deadline, the Financial Security Board (FSB) published a 2020 Progress report on the year of transition away from LIBOR. As the transition remains a global priority, the FSB also included a roadmap of milestones that banks should follow to navigate this process in a timely manner.

The FSB report addresses how the COVID-19 pandemic has been a "defining feature of the past year with widespread implications." Understandably so; the pandemic has impacted many firms in their transition away from LIBOR. Still, according to a survey of FSB members, it has not created pressing substantive roadblocks to the transition. The report states that the direct correlation between LIBOR and banks' overall borrowing costs weakened during the pandemic, with volatility leading banks to scarcely rely on LIBOR markets for funding. Those that did use LIBOR rates faced challenges because of the pandemic. While central bank rates were decreasing throughout the world, LIBOR rates were increasing, and those rates were passed on to borrowers when financial systems were supposed to play a role in providing much-needed liquidity.

Despite pandemic induced market disruptions, the FSB states that progress has been made throughout the past year in the transition. Many national working groups have produced their timely roadmaps as

By the end of 2021, banks should be fully prepared for LIBOR's discontinuation. At this point, all new businesses should involve alternative rates or at the very least be capable of switching in a short amount of time.

guides that have been widely adopted while also considering the economic impact of COVID-19. Over the past year, the FSB continued to work with the International Swaps and Derivatives Association (ISDA) to address the transition away from LIBOR in derivative contracts. In October 2020, ISDA released amendments to its definitions and protocols with these contracts and included new fallback language used by firms. This past year, more have adopted the Secured Overnight Financing Rate (SOFR) as the preferred alternative in U.S. dollar markets. Significant progress has indeed been made, and while regulators have launched a number of initiatives, what remains is for both financial and non-financial firms to globally lead the effort to a timely market transition by no longer issuing products linked to LIBOR and by modifying their legacy contracts linked to LIBOR wherever possible.

Currently, the FSB Global Transition Roadmap states that firms should already have identified all existing LIBOR exposures, including what will happen after 2021, and should also determine if those contracts have any fallback measures in place. Further, those who provide customers with products that reference LIBOR must plan to tell them about the transition and the steps being taken by the bank to move to alternative rates. Banks should now understand the industry and regulatory best practices with the transition away from LIBOR, including necessary steps taken with legal counsel's assistance. By mid-2021, banks should have already determined which legacy contracts can be amended before the end of the year and consummate those changes where parties can agree. New contracts should contain robust alternative reference rates wherever possible by this time.

By the end of 2021, banks should be fully prepared for LIBOR's discontinuation. At this point, all new businesses should involve alternative rates or at the very least be capable of switching in a short amount of time. In cases where it was impossible to amend legacy contracts linked to LIBOR, the implications of the benchmark rate no longer being published should have already been discussed, with necessary steps being taken to prepare for this kind of outcome. By Dec. 31, 2021, the goal is for all market participants, financial and non-financial firms alike, to operate without relying on LIBOR. To meet this, the importance of a market-led transition will remain significant throughout this year.

At the outset of LIBOR in 1986, no one could have predicted that over 30 years later, the rate would be discontinued and that a global pandemic would impact the transition. Just as 2020 was a significant year for the transition away from LIBOR, 2021 is equally, if not even more critical. If banks have not taken the necessary steps to address their potential LIBOR exposure for new and existing products, they must immediately put plans in place. The 1980s were indeed a different time compared to today. Just like computers with little storage space and phones as heavy as a sledgehammer, LIBOR is about to be an element left behind in the past. As we have adapted to technology changes, banks must also adapt to this change by properly preparing themselves and their customers.

Tim Dominguez joins Compliance Alliance after graduating from the University of Houston Law Center. During law school, he worked as an intern within the legal department of Frost Bank in San Antonio, TX. He also holds a Bachelor of Science in Communication Studies from The University of Texas at Austin. Before law school, Tim worked various jobs within the Texas state government, including the Texas Senate and the Texas Legislative Council. As one of our hotline advisors, Tim provides guidance to C/A members on a wide variety of regulatory and compliance issues, in addition to writing articles for some of our publications.

28th Annual and First Virtual Fraud and Security Seminar

Paul Hickman President/CEO of the Arizona Bankers Association and Rudy Ruiz Phoenix FBI

What International Business Customers Want From Their Community Bank

By Jay Kenney, PCBB

WHILE THE CORONAVIRUS HAD ORIGINALLY AFFECTED international trade, it seems to be normalizing to an extent. It could be a good time for community banks to prepare to serve those customers with international trade business.

Firms that import or export goods want banks to understand their particular businesses, along with dedicated expertise in international trade. Proficiency in just one or the other may not be enough.

International presence in multiple markets. These companies will likely choose financial institutions that can facilitate international trade deals. This means unless an entrepreneur can choose a community bank with a direct presence in all international markets to which they intend to export their goods, a correspondent bank relationship is vital.

Full-service expertise. These same customers want holistic banking relationships. They want to rely on a single financial institution to fill as many of their needs as possible and reap the benefits of readily available international services tailored to their specific circumstances.

To start, importers will want their financial institutions to offer a variety of products and services designed to ease international trade. A community bank might add value to import/export transactions by matching purchase orders against invoices and settling the transaction between buyer and seller. The transaction can then be reviewed, and a receivables program can be used to offer financing.

International business clients also appreciate financing that helps them offer more aggressive terms and manage cash flow, especially in this competitive marketplace.

Faster international payments. Faster international payments are also vital these days. Being able to quickly make payments and receive funds is critical when businesses are tightly managing their cash flow. One recent innovation in faster payments is a global payments initiative from the Society for Worldwide Interbank Financial Telecommunications, called SWIFT gpi. SWIFT gpi allows you to send and receive funds fast and securely worldwide for your international customers, with full transparency. Forty percent of payments sent through the SWIFT gpi network are credited within five minutes.

Managing risk. Customers also benefit when their community banks work with counterparties to manage risk. The Export-Import Bank of the United States (EXIM) is a clear candidate, but it's not the only choice. The U.S. Small Business Administration may provide export support on deals that EXIM declines to handle. Private-market insurance companies are sometimes willing to take positions in trade finance, as are non-governmental investors, such as insurance companies and pension funds.

As a correspondent bank, we can make it easy to support your customers with international services, including SWIFT gpi. If you would like to continue the discussion or need additional information, contact Jay Kenney.

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Optimizing Digital Lending

AN UNPREDICTABLE ECONOMIC CLIMATE CALLS FOR INCREASED balance sheet flexibility. Financial institutions are currently facing challenges in managing liquidity, improving digital channels, and adapting services to survive and thrive in a rapidly changing environment. When planning ahead, financial institutions should consider alternative investment and loan portfolio diversification strategies, as well as new point-of-sale product solutions to supplement and enhance revenue.

Value Proposition

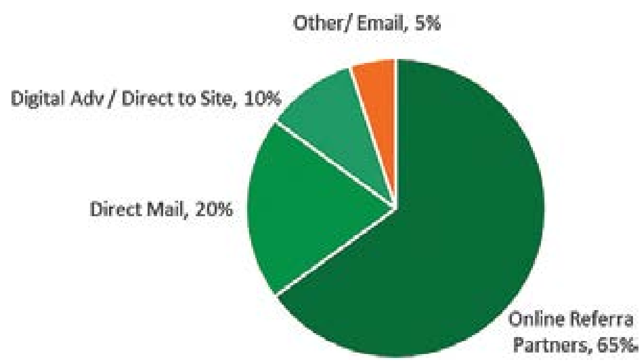
1. High yield, short duration asset, par pricing on personal loans
2. Ability to deploy liquidity quickly, no minimums or commitment schedules, place orders month-over-month
3. No black box, bank partners can overlay credit criteria
4. Ability to geo-target and purchase in the desired footprint
5. Ability to cross-sell to upgrade borrowers

Borrower Technology Features That Enhance Credit Performance

The mainstream U.S. consumer is seeking a frictionless, easy to use, fast, digital experience when creating new customer product features. Features that enhance customer experience and improve their satisfaction while enhancing performance are ideal. This allows financial institutions to "positively select" themselves with users that have self-selected with a positive credit feature. The data has shown that consumers with one of the below features perform better than those without.

Digital Customer Acquisition

- Online Referral Partners: Partner channels significantly remove friction and economical cost of acquisition
- Direct Mail: Decreasing the percentage of originations in this channel due to highest cost of acquisition and high market saturation
- Credit Health / Email: Lowest cost of acquisition, performance predictability
- Digital / Direct to Site: SEO and direct mail "halo effect"



Joint Application

Places two borrowers credit/income on the line

Credit Health App

Borrowers who simulate scores signaling they care about credit

Direct Pay

Loan proceeds go directly to pay off outstanding debt

Secured Personal Loan

Applicants may add collateral to reduce interest rate

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