

The Arizona Banker

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Perspective on the Paycheck Protection Program

page 6

Official Publication of the Arizona Bankers Association



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Perspective on the Paycheck Protection Program

Rob Nichols, President and CEO
American Bankers

AT THE END OF MAY, THE GOVERNMENT'S Paycheck Protection Program is scheduled to come to a close. If Congress does not extend the program, we can expect the “Monday morning quarterbacking” about the program’s impact on the economy, its design and implementation, and its ultimate cost to begin. Those are appropriate questions to ask as we consider the lessons learned from the nation’s response to the coronavirus pandemic.

Here’s what I know already: The biggest small business rescue program in U.S.

history would have been an unmitigated failure without the extraordinary efforts of America’s banks and their dedicated employees. It would never have produced the positive results it did without the incredible collaboration between ABA and our state association alliance partners.

It’s easy to forget what the world was like when PPP first launched in April 2020. The nation’s economy had largely shut down, many Americans were isolated in their homes, and businesses of all sizes were dealing with the stark new reality posed by COVID-19.

Banks across the country were trying to figure out how to keep the banking system fully functioning in the middle of a global pandemic and how to help their customers survive the economic disruption while also trying to figure out how to protect the health and safety of their employees and customers from an invisible threat.

It was against that backdrop that the federal government asked banks and other financial institutions to help the Small Business Administration launch the Paycheck Protection Program. On paper, the program dwarfed any previous SBA lending program

in its history, and the agency was asked to launch it within days of lawmakers passing the CARES Act.

That launch, to be generous, did not go perfectly. SBA's technical systems, built for its more traditional 7(a) lending program, could not handle the incredible load demanded by a program of this scale. The agency staff was overwhelmed and was slow in issuing the guidance banks needed to begin processing loans, and the guidance they did release was sometimes contradictory.

From the start, ABA and our state association alliance partners encouraged banks to step up and participate in PPP despite all the obstacles, and step up you have. As of April 11, banks were responsible for 80% of the nearly 9.6 million PPP loans so far and 93% of the \$755 billion in PPP funding. I am particularly pleased to see how banks of all sizes supported the program. From our largest members to our smallest, the commitment to our small business customers has been truly remarkable. We have been united in this effort.

Banks were able to step up because ABA, working with our state association partners, was able to keep members informed on the program and its many iterations. In daily Zoom calls in the early months of the pandemic, state association executives served as an early warning system, keeping us updated on operational issues popping up, which we relayed back to SBA. Meanwhile, ABA provided members and state associations the latest SBA changes in real time.

At one point, ABA hosted a PPP webinar for bankers, only to find that SBA employees in some parts of the country were trying to register. We came to learn that they were getting better information about PPP from ABA and the state associations than they were from SBA headquarters.

ABA and the state associations also partnered on targeted ad campaigns to encourage minority- and women-owned businesses to consider applying for PPP loans. This partnership was just one of many

industry initiatives to ensure PPP funds reached every business that needed them.

PPP will always have its critics. Some people remain fixated on the large businesses and public companies that applied in the first wave, only to be shamed into returning PPP funds. To be fair, many of those businesses met the initial eligibility requirements set by Congress. Government watchdogs remain rightfully concerned with inexcusable examples of fraud and abuse, many spotted by banks working with law enforcement.

Others have suggested that banks earned a windfall from PPP. The reality is that for

most banks, the cost of diverting staff from other lines of business to reset systems and oversee this massive new program made PPP lending a break-even business at best. And yet, all of those bankers also tell me they would participate again under similar circumstances because supporting PPP was the right thing to do for their customers, communities and the country.

I am hopeful we won't need another small business rescue program anytime soon. If we do need another PPP, please rest assured that we have learned some valuable lessons, and ABA and our state association alliance partners will once again be with you every step of the way. ▶

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We're in the Money: The 2021 Legislative Session

By John Fetherston

THE 2021 LEGISLATIVE SESSION HAS been unlike any others in recent memory. For one, lingering effects of the pandemic have required new safety procedures and kept public participation mostly digital. Pent-up demand from the COVID-shortened 2020 session has led to a flurry of activity and a large number of budget requests. But what has truly defined this session so far has been the mountain of cash legislators have to play with and how they decide to spend, cut or save it.

Arizona's economy never fully shut down due to COVID-19, and the resulting positive effects have been on full display this year. In January, the legislature's budget arm predicted the fiscal year 2022 ending balance of 1.6 to \$2 billion. This was largely due to increased federal stimulus and stronger-than-expected sales tax revenue, along with virtually no additional spending in last year's budget. This was already welcome news after the fiscal fears of 2020, but the excitement was tempered by the mostly one-time nature of this

surplus. However, the Arizona economy has continued to recover. With the passage of another huge federal stimulus package, the state's fiscal picture has become perhaps the rosier it has ever been. In April, the projected FY2022 ending balance was revised to almost \$4 billion, with \$1.2 billion available for ongoing spending.

These huge numbers have made the budget process exceedingly complicated. With one-vote margins in both the House and the Senate, every legislative Republican has veto power over the budget. While some legislators favor significant tax reform measures, others want to focus on spending priorities. A notable topic of conversation has been the size and scope of the budget's tax package. With such a significant surplus, many legislators (and the Governor) want to take this opportunity to enact large-scale income tax reform. Legislative leadership has shopped proposals that would reduce income tax brackets to two or even one overall bracket. Another driving force behind these proposed income tax reductions is the desire to mitigate the

economic impact of the Prop 208 surcharge that took effect this year. The challenge facing these proposals is their price tag — the cost of one proposal is \$1.2 billion in the first year alone.

On top of this glut of state revenues, the federal government in March enacted the American Rescue Plan (ARP), which will result in \$12.2 billion in funding to the state government. For context, Arizona's entire appropriated budget is around \$11.5 billion. How these dollars will be spent and how they supplant appropriated state monies remains to be seen. One piece of good news for tax reformers — in March, the U.S. Treasury issued guidance reminding states that, while they cannot use federal monies to cut taxes, nothing in the ARP prevents states from reducing their own revenues.

All this adds up to a unique and complicated session that has easily exceeded the constitutional 100-day limit. Whether the legislature is still in action once this goes to print is anyone's guess, but as of day 114, the end is still likely weeks away. ▶

How Will CECL Affect Your Institution's Securities?

By Jay Kenney, SVP & Southwest Regional Manager for PCBB



THE FINANCIAL PRESS IS FULL OF NEWS about CECL's effect on loans, as well as how the effects of the coronavirus will affect CECL's implementation. Yet, community banks will need to understand and strategize around the impact the new standard will have on their institution's investment securities.

These will need new accounting treatment as well. Different types of bank investment will require different accounting. Here are some considerations.

HTM securities. Community banks primarily use HTM securities to reduce capital volatility. These assets are currently accounted for monthly, on a book basis, and valuation changes aren't recorded to capital or income. Right now, actual or anticipated losses that aren't due to temporary impairment are recorded to income.

CECL will change how all financial institutions (FIs) account for HTM securities by requiring an allowance for lifetime expected credit losses when FIs buy an HTM security. Institutions will figure that allowance by adjusting historical loss data for current conditions, plus reasonable and supportable forecasts, for pools of bonds with similar risk characteristics. In other words, they will need to guess at the asset's history and future prospects, then account for anticipated problems at the time of purchase.

Trading securities. CECL won't affect trading securities, a group of assets that get monthly accounting on a mark-to-market basis, with any value change recorded to income. Because the community bank would immediately account for credit losses, CECL doesn't enter the picture.

AFS securities. Currently, FIs account for AFS monthly on a book basis, recording valuation changes to capital, not income. They record losses when they know that one has or will occur, registering the income change as a reduction in the security's loss basis. When the owner of an AFS security recovers previously recognized asset impairment, it records that recovery in interest income prospectively, over time.

CECL won't apply to AFS debt securities. Under the new rules, FIs will recognize an allowance for credit losses instead of reducing the asset's cost basis. When a security's credit quality improves or estimated credit losses improve, FIs will recognize these right away, as a reversal of the allowance recorded earlier. That aligns the recognition of credit losses on the income statement for the reporting period in which changes happen.

The new guidance does away with OTTI theory in favor of deciding whether an unrealized loss is due to credit problems

or other issues. FIs will no longer use the amount of time a security has spent in a position of unrealized loss to determine credit loss. Instead, they will evaluate each security during every reporting period, comparing the present value of the asset's expected cash flows against the security's amortized cost basis.

Now is the time to start looking at all of the facets of CECL and its effects on your institution's securities. Get all your ducks in a row now, as the auditors and examiners will likely be asking CECL-related questions in your next exam.

To continue this discussion on CECL or for more information, please contact Jay Kenney. ▾



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Financial Literacy Matters, Especially Now

By Arizona State Treasurer Kimberly Yee
First Published on Smart Women Smart Money

APRIL IS FINANCIAL LITERACY MONTH — A TIME DEDICATED TO creating awareness about the importance of wise money management. The unusual circumstances of the past year exposed financial vulnerabilities to the extent that have not been seen in decades.

According to a 2021 analysis, four out of 10 American families lack financial resilience and are unable to weather a crisis, making them especially susceptible when a financial crisis occurs. Those who endured financial hardship are seeking to get back into the job market, build savings and pay off debt. This year, Financial Literacy Month has taken on a whole new meaning.

While financial literacy cannot predict, avert, or fix a crisis, it can play a critical role in the recovery and stability of Arizona and its diverse communities. The overall health of our economy depends on the financial decisions of our individual citizens.

As State Treasurer, one of my main priorities is promoting financial literacy for all Arizonans. Last year, my office spearheaded Senate Bill 1292, now state law, to promote and raise awareness of financial literacy to Arizona residents as an official responsibility of the State Treasurer's Office, highlighting the importance of this statewide issue.

During this Financial Literacy Month, I launched the Financial Education Portal on the Arizona Treasurer's Office website. I invite Arizonans to explore these helpful resources and tools available through this Portal to grow a deeper understanding about personal finance and the value of saving. Making smart, informed financial and economic decisions will position Arizonans to achieve financial freedom and success. For more information or to access the Financial Education Portal, please visit aztreasury.gov/financial-education.

My administration advanced Senate Bill 1184 requiring students to have a semester of financial education before graduating from high

school. I'm also proud of my office's partnership with the Department of Economic Security to help vulnerable families on Temporary Assistance for Needy Families and state subsidies to attain self-sufficiency by providing them financial education as a work requirement.

I appointed the first-ever statewide Financial Literacy Task Force made up of experts and members from across Arizona, which has been hard at work to find ways to provide financial education resources to students, senior citizens, military families, veterans and vulnerable families. Financial education is a critical life skill that provides a solid foundation for success to individuals from all walks of life.

A lesson learned because of the pandemic was the importance

of having savings, where money is already set aside to use during unforeseen emergencies. Emergency savings are critical when the unexpected occurs, as it, unfortunately, did in 2020. It's recommended to save at least three months' worth of expenses for these funds. Even putting small dollar amounts away every couple of weeks can get one started toward this goal.

In honor of Financial Literacy Month, I encourage everyone to examine their personal financial resiliency. How can we better manage our money? What short and long-term savings goals do we need to set? Are we financially prepared for future, unexpected emergencies like the one we just experienced? Financial literacy strengthens not only individuals and families but also the overall economic health of our communities. ▶

How can we better manage our money? What short and long-term savings goals do we need to set? Are we financially prepared for future, unexpected emergencies like the one we just experienced?



Kimberly Yee
Arizona State Treasurer



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The Pandemic and the Continuing Supervisory Guidelines

By Kevin Kim, Compliance Alliance



ON MARCH 9, 2020, THE FEDERAL DEPOSIT INSURANCE Corporation (FDIC) issued guidance encouraging financial institutions to assist customers and communities affected by COVID-19. With the Coronavirus Aid, Relief and Economic Security (CARES) Act, many banks were faced with their own set of challenges. During this time, many banks took steps to assist consumers, including allowing loan modifications with no fees, waiving fees on accounts and offering in-home banking services. Many were also participating in providing Paycheck Protection Program (PPP) loans to small businesses. Because of these accommodations, many banks struggled with high volumes of COVID-related mortgage requests and questions from customers and PPP loans. Banks were overcoming these overwhelming volumes while also maintaining their efforts to keep the physical locations of the banks safe for both customers and the employees. Through these difficult times, financial institutions created and revised policies and procedures to adjust and provide excellent service to customers.

Throughout the pandemic, the FDIC shifted to conduct all consumer compliance examinations and industry meetings virtually. At the beginning of the pandemic, the FDIC paused examination activities to allow financial institutions to focus on meeting the needs of their customers. As the examinations resumed, the FDIC allowed flexibility in scheduling to accommodate the institution's needs. There were some hurdles in the earlier stages due to operational and staffing challenges that limited the ability of management to respond to supervisory requests because of the shift to the virtual examinations. However, the FDIC was still able to conduct all consumer compliance and Community Reinvestment Act (CRA) examinations within the timeframes established by the FDIC policies.

The most common violations during the 2020 examinations involved: the Truth in Lending Act (TILA), Truth in Savings Act (TISA), Flood Disaster Protection Act (FDPA), Electronic Funds Transfer Act (EFTA), and the Real Estate Settlement Procedures Act (RESPA). The FDIC uses a risk-focused methodology in conducting its compliance examinations, and the most frequently cited violations typically involve regulations that represent the greatest potential harm to consumers. The FDIC initiated eight formal enforcement actions and 16 informal enforcement actions to address consumer compliance examination findings. The total voluntary payments to consumers totaled approximately \$7.4 million to more than 67,000 consumers.

RESPA Section 8(a) prohibits giving or accepting a thing of value for the referral of settlement service business involving a federally-related mortgage loan. The FDIC continued to find RESPA Section 8(a) violations involving illegal kickbacks, disguised as above-market payments for lead generation, marketing services, and office space or desk rentals. Paying for leads is acceptable, but paying for a referral is prohibited. To distinguish between the two, examiners look to whether the person providing the lead/referral

was merely giving information about a potential borrower to a settlement service provider or if a person was “affirmatively influencing” a consumer to select a certain provider. “Affirmative influence” means recommending, directing or steering a consumer to a certain provider. Often, true leads are lists of customer contacts that are not conditioned on the number of closed transactions resulting from the leads or any other considerations, including the endorsement of a settlement service.

To mitigate the risks associated with RESPA violations, banks could provide training to executives, senior management, and staff responsible for and involved in mortgage lending operations. Banks can also perform due diligence when considering new third-party relationships that the bank or any individuals employed at or under contract to the bank generates leads or identifies prospective mortgage borrowers. Lastly, the bank could develop a monitoring process for identifying, assessing, documenting, and reporting executive and senior management risks.

The Truth in Lending/Real Estate Settlement Procedures Integrated Disclosure (TRID) Rule also led to many violations. The Loan Estimate helps consumers understand the key features, estimated costs, and risks of the mortgage loan for which they are applying. The Closing Disclosure helps consumers understand all of the actual costs of the transaction and provide them with the opportunity to review costs and resolve any problems before closing. Under the TRID rule, the Loan Estimate is based on the “best information reasonably available” when the consumer provides disclosures. The bank must exercise due diligence in obtaining this information. The Closing Disclosure is based on an accurate disclosure standard. The FDIC found multiple instances involving Veteran Administration Loans where banks failed to comply with the “best information reasonably available” and due diligence standards under TRID by issuing Loan Estimates based on

To address the fair lending risks, banks could consider regularly reviewing credit policies to ensure the Equal Credit Opportunity Act and Regulation B permit such considerations.

unavailable interest rates and loan terms. Additionally, examiners found potentially deceptive practices when banks represented certain terms for loans that were not generally available.

Mitigating risks for TRID violations also includes providing training to executives, senior management, and staff responsible for, or are involved in, mortgage lending operations. Additionally, the bank should establish policies and procedures to help the staff comply with regulatory requirements when preparing disclosures. Finally, the bank should also consider implementing a centralized process to complete or review disclosures to ensure accuracy.

Fair lending was also a big concern when evaluating bank compliance. During the 2020 examinations, the FDIC found a bank that would automatically deny the applicant under 30 years of age. Furthermore, the source of income was provided using a drop-down menu and any applicant who did not choose employment was denied. In another case, a credit-scoring model scored younger applicants more favorably than it scored elderly applicants. It also negatively considered applicants that were on maternity leave. There was also a bank policy that provided that the loan officer should use the highest credit score of the two applicants when the applicants were married, but the primary applicant’s credit score would be used when the joint applicants were unmarried.

To address the fair lending risks, banks could consider regularly reviewing credit policies to ensure the Equal Credit

Opportunity Act and Regulation B permit such considerations. The FDIC finds that a strong compliance management system helps ensure that financial institutions treat consumers more fairly. Moreover, the bank should review any filers or other criteria for online leads, website applications or credit scoring models.

With such an unprecedented pandemic sweeping across the nation, many areas needed adjustments to adapt to the changing environment. Regardless of the impact of COVID-19, banks should continue to set up and monitor compliance programs to ensure that the banks are complying with the appropriate regulations for their business activities. ▀



Kevin Kim joined Compliance Alliance after graduating from the Benjamin N. Cardozo School of Law in 2019. He currently serves our

members as one of our

hotline advisers, where he spends his days guiding our members and writing articles for our weekly and monthly publications.

Before C/A, he worked at Galaxy Digital and Refinitiv (formerly Thomson Reuters Financial and Risk) as a law clerk. He also opened a cryptocurrency mining farm and founded an after-school program business in his native New York City. His unique experience and outlook have brought an invaluable new dimension to our group.



ATM Thefts

IN ADDITION TO ALL OF THE EVERYDAY RISKS BANKS AND CREDIT unions need to guard against, the COVID-19 pandemic has resulted in a significant increase in the number of ATM thefts across the country. The spike hasn't been surprising due to a number of factors, but the costs and damage resulting from these attacks are often considerable. Fortunately, there are steps banks and credit unions can take to help prevent becoming a victim of ATM theft.

During challenging financial times when people face desperate situations, there is usually an uptick in bank robberies. There was an increase throughout the 2009 recession, for instance. With the pandemic in 2020, there was an increase in the U.S. unemployment rate, with more people out of work and ample time on their hands.

Because COVID limited the number of people permitted in indoor facilities — or prevented them from entering altogether — bank lobby access was impacted, forcing more customers to use the ATM, which is often outside or in an entryway. Since more of a bank's customers are not going into the lobby but

instead use the bank's ATM, more money is being placed in the machines to meet demand. Thieves were quick to catch on to this practice and began targeting ATMs with more frequency. Often, a vehicle or piece of construction equipment is used to dislodge and remove the entire ATM.

“Smash-and-grab events have become quite common, and they can be rather costly, because, in addition to the money lost, there is often physical damage to the building,” said Tracey Santor, product manager for Financial Institution Bonds at Travelers. “There are several steps banks should strongly consider taking to reduce this risk, including purchasing ATM insurance coverage.”

Deterrents include:

- Installing concrete barriers or bollards around the ATM making it more difficult for thieves to access the machine using a vehicle or machinery.
- Adding lighting and surveillance cameras.
- Placing dye packs and GPS devices inside an ATM so if the machine is jostled or removed, the packs explode and the location can be tracked.

Even though regulators require FI bond crime insurance coverage, ATM coverage is not mandatory. It can be added to the bond and P&C policy as an endorsement, even if the machine is not located on the premises. Without it, an ATM theft wouldn't be a covered event. Insurance carriers such as Travelers have products and resources available, so banks and credit unions have coverage when a crime occurs.

According to a recent article from The Wall Street Journal, the number of attempted ATM smash-and-grabs increased by 150% from 2019 to 2020. Now is the time to ensure your bank has done everything possible to protect against this type of incident. To learn more, have a conversation with your insurance broker or agent, or reach out to an insurance carrier. ▶

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Background and Current Status

By Paul Hickman



THE TERM “FINTECH” IS A PORTMANTEAU of the terms “financial” and “technology.” It is generally used to refer to innovative information technologies in the financial services industry. The development of highly sophisticated information-technology algorithms over the past several decades has enabled the creation of a new generation of products and services that enhance convenience, speed and accuracy; and that can potentially destabilize entire industries — and create new ones. The Uber ride-hailing app is a good example of this. Applying these relatively new algorithm-based information technologies to the creation of innovative products and services in the financial services sector gave birth to the nascent “fintech industry.”

Launching these new fintech products and services in modern economies carries with it a higher level of risk and difficulty than the introduction of algorithm-based technologies outside of the financial services sector due to the highly regulated nature of the sector itself. While a high degree of regulation is necessary in the financial services sector to protect consumers, it can and does stifle the development and distribution of these new fintech products and services.

In 2016, the United Kingdom carved out a less stringent regulatory environment for companies to market-test new fintech products and services while at the same time maintaining a robust level of consumer protection. This “fintech

sandbox” is a temporary regulatory safe harbor for companies seeking to bring new fintech products and services to market. It also limits the raw number of consumers or businesses these companies are permitted to co-opt in order to test their products and services. Other countries — and jurisdictions within them — such as the United States, Singapore, Hong Kong, Thailand, Australia and Switzerland, have followed suit.

In 2018, Arizona became the first U.S. state to officially launch a regulatory sandbox for fintech.

Arizona Attorney General Mark Brnovich was a prime mover of the legislation

creating the sandbox. The AzBA played a major role in helping to craft the bill with the AG's staff and State Representative Jeff Weninger. The AzBA was also highly involved in shepherding the bill through the legislative process and to the governor for signature.

Since then, Wyoming, Utah, Nevada, and Florida have also enacted versions of fintech sandboxes. Oklahoma and South Carolina currently have pending legislation to create sandboxes. And Georgia and North Carolina are also looking at creating them in their states. What appears to differentiate Arizona's program from these other states is that Arizona does not restrict participation to Arizona businesses. This lack of a domicile requirement is what we think will attract more fintech companies from all over the country and the world to Arizona than these other states.

Foreground

The Arizona Fintech Council program participants will necessarily fall into one of three groups: the fintech companies seeking a partnership with one or more financial institutions (FIs) to do a Proof of Concept (POC) and apply to the Arizona Attorney General's Fintech Sandbox; the FIs seeking to evaluate those fintech companies; and the public policy stakeholder groups seeking to make the state's sandbox program successful. More on them below.

Our partners at CCG have team members throughout the United States, Europe and Asia. They advise banks on fintech related to partnering, investing and acquiring. The firm works with various accelerators and incubator programs. They speak at banking and fintech conferences around the world that attract companies seeking to test fintech products and services in major markets. These fintech companies are looking for FIs that are already integrated into the regulatory regimes of their operating jurisdictions for working partnerships in order to deploy their wares, seek investment, and potentially be acquired by FIs with the economic scale to distribute their products and services.

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The partnership will rely on CCG to identify the relevant fintech companies, analyze their products and services and business plans — and qualify them to present to the Council before applying for admission to the Arizona Fintech Sandbox. AzBA staff will work with the CCG team to promote membership in the Council to FIs in Arizona and throughout the country. Ideally, the Council will be populated by subject matter experts from the member FIs seeking to evaluate the fintech companies' products and services and potentially partner with these companies in the Sandbox and possibly invest in or acquire them.

The third group of participants may constitute subject matter experts from the public policy stakeholder groups seeking to make the Arizona Fintech Sandbox program successful. These include members of the economic development community, relevant trade associations, chambers of commerce, government, and universities throughout the state.

AzBA has initially identified the following groups to approach and gauge their interest in participating in the Council: The Greater Phoenix Economic Council (GPEC); Sun Corridor, Inc. (which is the corollary to GPEC in southern Arizona); the Arizona Commerce Authority (ACA); the Arizona Technology Council; ASU's innovation center known as SkySong; The University

of Arizona's Center for Innovation; the economic development director of the City of Phoenix; and the Arizona, Phoenix, and Tucson Chambers of Commerce.

Program Design

As currently conceptualized, we anticipate the Arizona Fintech Council hosting three or four day-long meetings annually where each fintech company will have 60 minutes to showcase and Q&A their concept, solution and services. They will present their plans for utilizing the Arizona Fintech Sandbox. And they will make their case for a POC partnership with one or more of the financial institutions participating in the Council.

The CCG staff will produce a background memorandum on each fintech company scheduled to make a presentation to the Council. These memoranda will provide basic information on the companies and the product or service they intend to test in the sandbox. The memos will be distributed to the members of the Council in advance of each meeting.

The presentations will be at a high-altitude, summary level designed to gauge the interest of the individual councilmember FIs in potential POC partnerships with the presenting fintech companies. These initial presentations will not be at a depth-of-information level that will

Continued on page 18

Continued from page 17

restrict the council member or the fintech from fully participating in the initial introductory presentation.

The subject matter experts from the participating FIs will view the presentations and fill out a standard evaluation form with their impressions. They may also make suggestions and recommendations for a successful sandbox POC and entry into the regulated market. The Council will collect the evaluation forms and provide the fintech applicants with a copy. If the consensus view of the Council is that the fintech company has a concept, solution or service that supports the financial services sector, and there are one or more member FIs interested in partnering with the fintech in a POC, the Council will forward an evaluation summary with a cover letter expressing that view to the Attorney General's Fintech Sandbox staff.

The Council will facilitate contact between members of the Council and the fintech companies following each Council meeting to the degree requested and welcomed by all parties — and warranted by the potential success of a POC. If a councilmember is interested in partnering with one or more of the fintech presenters, that member will have 30 days to notify CCG of that interest. The parties then will negotiate in good faith a standard POC agreement that will have the terms of the POC — and all related terms to protect all parties, including the intellectual property of the fintech.

Eligibility for Participation and Membership Fees

The goal is to have a Council with approximately 30 people viewing the presentations of the Arizona Fintech Sandbox applicants at any given meeting. They will come from regulated U.S. FIs and stakeholder public policy groups from inside and outside of Arizona.

To Participate as a Financial Institution (FI)

The goal here is to have a diverse membership from an institution-size



perspective. Most industry experts break the U.S. financial services sector into three groups based on asset size: the large “money-center” banks with assets over \$1 trillion; the regionals and super-regionals with assets between \$10 billion and \$1 trillion; and the community banks, Community Development Financial Institutions, and credit unions with assets below \$10 billion. The Arizona Bankers Association has member banks in all three categories.

In the initial phase of the Council's operation, we will endeavor to have representatives from institutions in all three size categories participate. We will not charge a participation fee for AzBA-member banks in the first year. We will, however, analyze the wisdom and necessity of assessing member banks a participation fee in subsequent years. That fee, however, will be substantially lower than the fee for non-member financial institutions, which will be \$10,000 for the first year.

To Participate as a Fintech Company/AZ Sandbox Applicant

Fintech companies seeking to present their concept and make connections with members of the Council must have an application pending or a demonstrated intention to submit an application to the Arizona Fintech Sandbox. There will be a nominal “presentation fee” of \$1,500 to present to the Council. That presentation fee will not include any fees

that the State of Arizona may charge the fintech to participate in the Arizona Fintech Sandbox. The fee will, however, entitle the fintech company to one annual associate membership in the AzBA, which includes access to the annual convention (not including the convention fee and lodging costs).

To Participate as a Stakeholder Group

Stakeholder groups wishing to participate must have an obvious “stake” in a successful Arizona Fintech Sandbox program. As mentioned, these organizations include, among others, the state's economic development corporations such as the Greater Phoenix Economic Council (GPEC), the Sun Corridor, Inc., the Arizona Commerce Authority (ACA), the Arizona Technology Council, and the state's largest chambers of commerce (the Phoenix Chamber, the Arizona Chamber, and the Tucson Chamber).

Eligible stakeholder groups can also include high-tech university incubators such as the University of Arizona's Center for Innovation and Arizona State University's SkySong. They can also include state and local government officials such as city economic development personnel, state legislators, and senior members of the governor's staff. These participants must be invited to participate, and the participation fee will be \$500 per meeting, per person attending. ▀



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Introducing MarTech Without the Migraine.

By Neal Reynolds, President, BankMarketingCenter.com



JUST IN CASE YOU STEPPED AWAY FROM your computer for a few minutes, marketing technology or MarTech, describes the software and technology used to attract and retain customers. There's been a lot of talk about it, and rightfully so. According to HubSpot's recent article, "What Marketing Leaders are Investing in This Year," 60% of marketers indicated that they are set to increase their marketing technology spending in the next 12 months. The reason, of course, is that investments in marketing technology are the solution du jour when it comes to a financial institution's ability to, as HubSpot puts it, "retain and delight their audiences and react

with speed when necessary. And the options are vast. As of 2020, there were 8,000 different MarTech tools to choose from, ranging from data analytics platforms to CRMs, to internal team collaboration tools."

The need for better data analytics, automated processes and collaboration tools has been around for quite some time. With the changes we're seeing from COVID-19 and the trend toward virtual officing, that need has increased significantly. The processes, and the personnel, that facilitated the conceiving and execution of marketing messaging no longer live under one roof. With stakeholders scattered — the usual

players such as product development, sales, brand and creative — it's just no longer possible to simply get together in a conference room and "hammer things out."

What's the solution? Marketing technology. Well, unfortunately, it's not quite as simple as that. As Laurie Busby pointed out in her Financial Brand article, "Marketing Automation Doesn't Have to End in Costly Failure," marketing automation can, unfortunately, end in costly failure. "Some financial institutions are so eager to enter the MarTech world that they let themselves be sold deluxe software packages and empty promises. Many such teams sign

BankMarketingCenter.com allows First Interstate Bank to get their marketing message out quickly, efficiently, and always on-brand.

on with tech-giant platforms that charge monstrous upfront costs and require exhaustive training. Months later — sometimes longer — these institutions still won't have the software up and running. Without the right support, these once enthusiastic folks find themselves stuck wading through massive "bloatware" platforms. No one on their teams has the bandwidth to train new users properly, let alone manage. Worst of all, they find themselves no closer to their goals and can't demonstrate any ROI to their key stakeholders."

First Interstate, a community bank headquartered in Billings, Montana, with more than 150 offices across Idaho, Montana, Oregon, South Dakota, Washington and Wyoming, solved this challenge with a private label portal from BankMarketingCenter.com.

"As a large community regional bank with a diversified suite of financial products and services, we knew that we needed a way to get branded, compliant, approved messaging out into the marketplace in an efficient, cost-effective manner," said Sara Becker, senior vice president and director of marketing and communications at First Interstate. "That led us to BankMarketingCenter.com and the development of a private label portal." First Interstate's portal is a custom-designed, automated system that organizes assets, streamlines the review

process, tracks projects at every stage of development, archives the entire project process from start to finish, offers high-quality templates along with thousands of images, and ensures both information accuracy and brand standards compliance.

"Anything going through our agency was expensive and had a long turnaround time, sometimes as long as two weeks," said Rhianna H. Tretin, marketing and PR specialist at First Interstate. "And, we could never be sure that the information in those materials was current and compliant. When we access materials in the portal, we know that the information in those templates is current and that it meets compliance demands."

BankMarketingCenter.com allows First Interstate Bank to get their marketing message out quickly, efficiently, and always on-brand. Through the portal, the bank's 1,200 users can access approved, branded materials and customize them in seconds to target their local markets and then have them downloaded or electronically delivered to the approved vendor. The software also builds in controls from a budget and compliance standpoint since there are levels of access and approval for different users. Once a marketing product is ordered, the technology automatically routes the request through marketing/compliance for approval. Once approved, the product is sent directly to the bank's approved printer or media outlet.

By working with BankMarketingCenter.com, First Interstate Bank can maintain control of its brand image and empower team members at the local level with high-quality, professionally created ads and marketing materials they can customize. The portal has helped the bank save thousands of dollars in marketing costs, facilitate compliance, and respond more quickly to demands for marketing materials. And the bank anticipates that this trend will continue as it expands its use of the customized private label portal.

Busby concludes with this thought: "That is why when choosing a platform and package, you must not only consider your marketing needs, but also ensure that meeting them with MarTech falls within the scope of your department's capabilities. Throughout the selection process, remember your end goal: You are aiming for better, personalized communication and smarter use of your team's capabilities. The right software is out there — you just may need to poke around before you find it."

We couldn't agree more. ▶



*Neal Reynolds, President,
BankMarketingCenter.com.*

How Alternative Financing Expands Opportunities For Banks And Their Customers

By Equipment Leasing Services

MANY BUSINESSES THAT HAVE struggled through the past year will be pursuing opportunities to expand their markets and increase productivity through equipment upgrades and additions in products and services. The post-pandemic market will open new avenues of growth for many businesses and those banks positioned to grow with their customers.

Some of these business owners, however, may be unable to meet regulated bank underwriting criteria and consequently may fall through the cracks of the traditional equipment financing formula. While traditional loans may be declined, alternative debt sources can provide a solution to help the bank and their business customers achieve a positive outcome together.

Over the course of 20+ years in the finance industry, Equipment Leasing Services (ELS) has found alternative finance solutions that often provide banks with new paths for customer success, especially in regard to deal structure, credit, size and collateral, as exemplified by real commercial banking opportunities ELS has financed over the past year.

Structure

Providing alternative financing structures allows regional banks without a dedicated equipment division to offer an array of products that larger banks and their competition already have at their disposal. For instance, the structure tends to be very important in the transportation industry, and one of the better lease structures available is called a Terminal Rent Adjustment Clause (TRAC) lease agreement to document and fund the acquisitions of commercial vehicles for over-the-road and local use. TRAC lease agreements provide a means to obtain the

asset for the lowest possible monthly cost. It reduces the sales tax obligation while establishing a fixed residual and avoiding additional mileage charges.

Using a TRAC lease structure, ELS helped a bank customer in the freight hauling business acquire a new truck worth \$150,000 for the lowest monthly cost compared to a conventional loan. Here is an example:

Loan: \$150,000

Conventional Loan:	\$150,000
TRAC Lease:	\$150,000
Term:	48 Months
Rate:	5%

Conventional	
Monthly Payment:	\$3,454.39

TRAC	
Monthly Payment:	\$2,888.52
TRAC Residual:	\$30,000

By using a TRAC lease structure, the bank's customer saved \$565.87 a month, which improved their overall debt coverage ratio. It also helped alleviate the upfront costs of sales tax and down payment that the conventional loan required. Instead of putting an immediate cash strain on the business, the lease financed 100% of the equipment costs while spreading the sales tax obligation over the term.

This type of structure and documentation is not typical of bank offerings for loans, but it is something that is done regularly in many industries. In these examples, the referring bank can fund the overall request needed, or ELS can provide funding from its sources.

Credit

Underwriting criteria for banks include the overall credit quality of a customer. Credit

quality may be a tough challenge for new businesses or existing struggling businesses looking for additional equipment upgrades to meet the demand for opportunities such as new contracts or expansion into new markets. It's important for banks to be able to respond quickly to these customers and their needs and requires the bank to look for ways to meet their customer's needs while staying within their overall credit requirements.

Between PPP loans and the uncertainty and challenges that COVID-19 has weighed on business, the past year has been a strange time. An example of this came when ELS was brought in to help supply financing for a customer in the food manufacturing and packaging business. The business had been successful for many years, but it was struggling early in 2020 when the pandemic caused a sudden revenue drop. The bank had already provided a loan to the customer earlier that year and could not increase its exposure due to the company's losses. When the customer needed financing for manufacturing equipment to keep up with the demands of a large new contract, ELS assisted in providing the capital necessary. The company received \$550K of equipment funds needed to capitalize and grow one of its most profitable contracts.

Size

There are times when a bank client has just become too large: either the client has gone beyond the bank's ability to service a loan request, or the bank has been presented with a small loan that is not cost-effective for a bank to underwrite. It is in exactly these types of situations that alternative financing becomes a useful tool.

ELS having its own capital and funding resources proved useful when a partner bank had a great business relationship with a

logistics company that wanted to refinance its fleet of vehicles and trailers. Due to the many years of working closely with the customer and providing many loans, the bank had reached its lending limit. Knowing the customer might turn to other lending institutions for financing, the bank turned to ELS. ELS was able to prevent the logistics company from needing to shop around by providing a highly competitive rate, helping to consolidate and lower the monthly payment on their fleet.

Another bank reached out to ELS because they were working on underwriting a multimillion-dollar loan for a customer, and the customer needed to finance a smaller piece of equipment worth \$300K before year-end. The larger transaction was keeping the bank busy, and they didn't have the immediate capacity needed to finance the other equipment. ELS quickly assisted in financing the smaller piece before the end of 2020 with internal funds, allowing the company to take the depreciation and get the equipment they needed.

Collateral

Banks generally have collateral requirements for lending, whether in regard to geographical location or types of collateral. This may limit their ability to extend credit to customers who have increased needs outside of these boundaries.

Collateral created an obstacle when a bank partner of ELS had a strong deposit relationship with an emergency medical flight company but was unable to provide a loan on their aircrafts and necessary equipment due to the bank's collateral liability policy. ELS used their niche expertise in servicing specialized equipment by providing financing agreements for their aircraft and other aviation collateral.

If a company finds its business expanding out of the state of the current operation, this may create challenges for a bank only chartered to lend in specific areas. The ability to supply funds to nationwide locations for all types of equipment

through ELS provides additional flexibility to the originating bank but is transparent to the customer.

This struggle came to light when a bank's longtime client was looking at purchasing a transportation company out of state and sought to refinance the assets and secure funds needed to complete the acquisition. Through an ELS sale-leaseback of the entire fleet of trucks, funding was provided for \$3.2 million in cash of the \$6.0 million to complete the purchase of the existing businesses.

Alternative financing is a powerful channel for banks to meet their customers' growth goals, thereby protecting their customer relationships in this ever-changing economy. We have financing products available for you to increase your business opportunities with clients and potential clients that may not fit within your bank's in-house portfolio. Call us today. We can help. ▶



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