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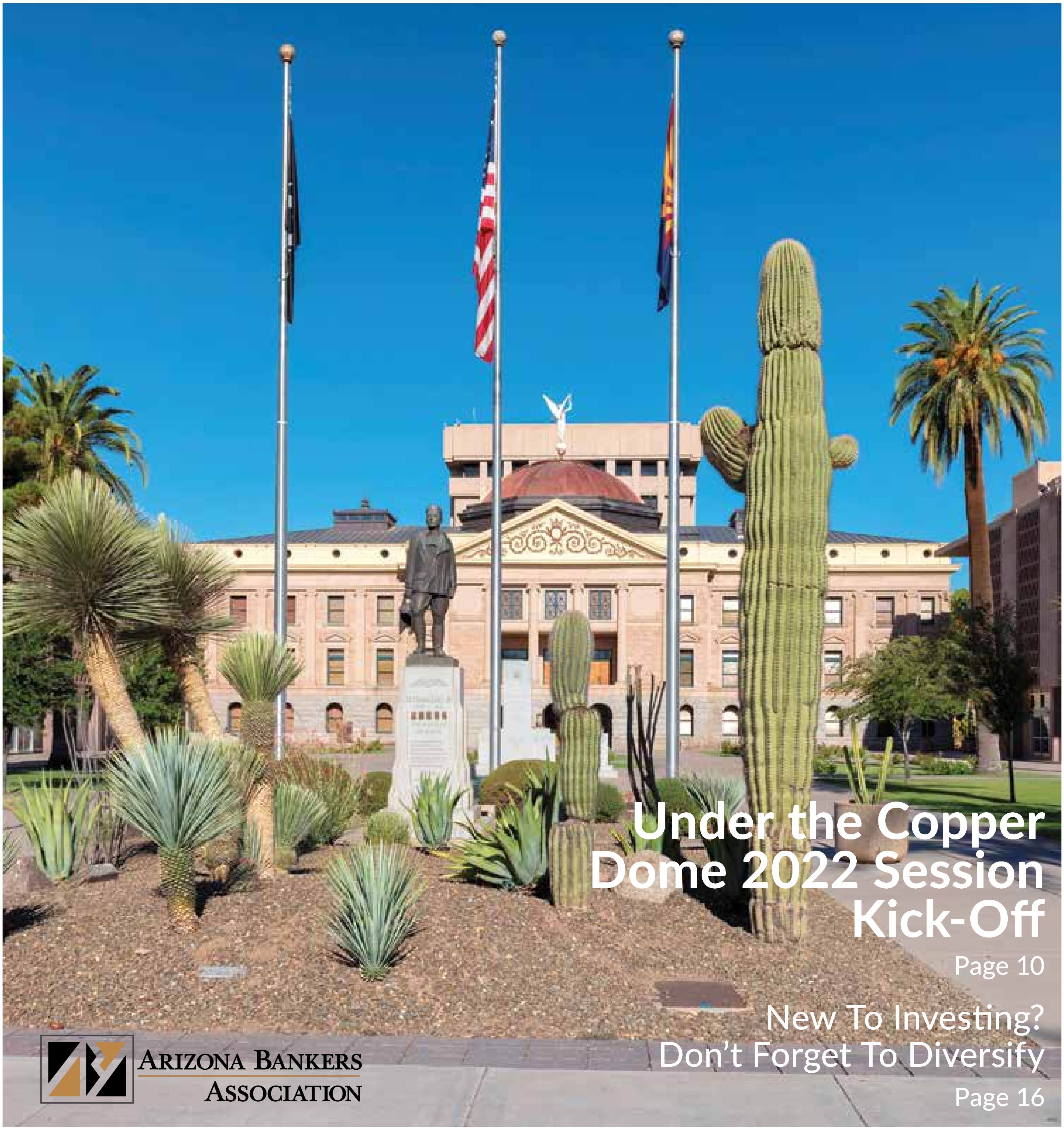

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Build a Winning Cannabis Banking Program

GET THE GUIDE TO COMPLIANT CANNABIS BANKING

The emerging legal cannabis industry brings significant growth potential, along with challenging operational demands and complex regulations. But cannabis banking does not have to mean high-risk banking.

To ensure the processes, procedures, technology, and trained staff are in place to serve this industry, bankers need to start with a plan. Having a clear understanding of what is required to serve cannabis businesses and minimize risk to the financial institution will help bankers prepare for the upfront costs associated with cannabis banking and develop the policies and procedures needed to hit the ground running. With regulations varying from state to state, it's a complex industry with high costs, requiring a considerable investment of time and energy.

Compliant banking operations require continuous enhanced due diligence to help guard against risks such as:

A Robust Illegal Market. According to New Frontier Data, the legal cannabis market in the U.S. is expected to reach $41 billion by 2025. Unfortunately, the illicit market, valued at $65 billion by some estimates, is shrinking at a slower pace. Financial institutions must ensure that funds coming through their doors are from legal channels.

Bad Actors. To ensure bad actors are not attaching themselves to good businesses, enhanced due diligence conducted around underlining beneficial owners will continue to be at a heightened level for the foreseeable future.

Legacy Cash. Because the cannabis market existed as a cash business long before legalization and because the industry continues to operate largely as a cash business, a strong BSA/AML program will help ensure that funds coming into the financial institution are from legal cannabis operations.

While the added burden and cost associated with serving this industry may limit the total number of participants in the short term, we expect competition from financial institutions to steadily increase as more states launch legal programs and we get closer to federal recognition.

Financial institutions that invest in technology to improve efficiencies and lower costs today will be able to scale as the industry grows and have a competitive advantage when the economics of the industry change over time and new banks and credit unions enter the market.

Informed by the experiences of pioneering bankers across a growing number of states with legal medical and adult-use programs, the Shield cannabis banking playbook defines a path forward for financial institutions to serve cannabis-related businesses compliantly while benefiting from the financial rewards of this market.

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Areas where ELS has expertise navigating obstacles

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2022 Shaping Up To Be an Extraordinary Year for Banking In Arizona

By Evan Daniels, Director, Arizona Department of Insurance & Financial Institutions

When I became Director in the summer of 2020, at the height of the COVID-19 health crisis, the uncertainty facing the banking sector was palpable. I heard the same trepidation from bankers, regulators, and consumers alike — the COVID economy was the most serious test facing banks since the financial crisis in 2008. Thankfully, the banking system proved resilient, and though the health crisis remains with us almost two years later, the hunkered down "doom and gloom" sentiment of 2020 seems a little more optimistic in early 2022.

Optimism for 2022 is particularly apparent in Arizona, where the state's financial services sector is growing and thriving. Just this past month, Arizona chartered its first de novo bank in more than a decade, with potentially more to follow in the coming months. These additions to Arizona's banking community are timely. Although the state is in the top 10 for population growth according to the 2020 census and had a top-10 economy in the United States for GDP growth in 2021, Arizona ranks in the bottom 10 for the number of state-chartered banks actively serving the state. Needless to say, the opportunity abounds to provide banking services to our growing state.

Opportunity also exists to further strengthen the relationship between regulators and bankers. What our industry stakeholders knew for many years as "DFI" (Department of Financial Institutions) added another "I" in 2020 to become the Department of Insurance and Financial Institutions ("DIFI" — think "Wi-Fi" with a "d"). Merging two agencies with distinct identities (in the middle of a pandemic, no less) was challenging. We still have much to do to remain a responsive and efficient regulator. But those goals remain achievable if we prove capable of adapting to change effectively. We share many challenges facing our industry stakeholders: adjusting to altered expectations about performing work, hiring and

> Optimism for 2022 is particularly apparent in Arizona, where the state's financial services sector is growing and thriving.

retaining talent, and keeping up with the opportunities and risks associated with advancing technology. To those ends, in the last 12 months, DIFI has reduced its permanent office space by 45%, incorporated remote work as a regular part of most DIFI employees' schedules, raised salaries, and sought to invest in our technological capabilities. All the change notwithstanding, we nevertheless take pride in hearing that the efficient and responsive agency you have come to expect remains.

As excited as I am about DIFI's future, these adjustments to our agency hardly broach many of the larger regulatory topics affecting banking, and I do not expect 2022 to lack interesting developments in that regard. Cybersecurity continues to increase in importance for the safety and soundness of our banking system, and every commitment of time, effort, and money devoted to securing critical cyberinfrastructure is a resource well spent. The increasing development and use of digital assets also bear watching closely, much like fintech's emergence several years ago. Though DIFI alone cannot provide all the answers needed to clarify issues like these, we are engaged on these topics and committed to providing certainty for our stakeholders as much as possible.

Regardless of what comes and goes on the cutting edge of regulation and innovation, the core business of banking and its benefits to our community remains. I am grateful for the chance to be part of this community and look forward to DIFI's continued work with you all to ensure Arizona's banking system remains secure. ◗

Evan Daniels, Director, Arizona Department of Insurance & Financial Institutions


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Under the Copper Dome
2022 Session Kick-Off

By John Fetherston, Director, Veridus

The second regular session of the 55th Arizona legislature convened January 10, and legislators are off to a fast start. After two COVID-impacted sessions, there's a feeling of "back to normal" down at 1700 West Washington. Despite the omicron wave causing a number of positive tests among legislators in the first couple of weeks of the session, both the House and Senate are proceeding at full speed ahead. As of January 31, more than 1500 bills have been introduced — an all-time high. With the state again facing record surpluses and partisan margins still razor-thin, this session promises to be as exciting as the last.

Depending on who you ask, Arizona is going into fiscal year 2023 with either a $3.2 billion or a $4.4 billion surplus. While JLBC, the legislature's budget arm, is holding a billion dollars in reserve for potential Prop 208 refunds, the governor's office does not believe Prop 208 revenues have been collected, so no refunds will be owed should Prop 208 be thrown out. While most capitol observers expect Prop 208 to be finally declared unconstitutional, the ruling has not been released as of this writing.

This uncertainty around Prop 208 has influenced the discussions around what is perhaps the biggest issue of the session, education spending reaching the Aggregate Expenditure Limit (AEL).

Passed by the voters over 40 years ago, the AEL limits spending on public education. On April 1, Arizona will exceed the limit, leaving school districts unable to spend appropriated monies and facing a fiscal cliff. While Democrats at the capitol advocate for an immediate legislative remedy, their Republican counterparts are waiting for the Prop 208 ruling to decide how to proceed.

Another significant issue this year is the fate of the last session's landmark tax cut. Delivering on a campaign promise, Gov. Ducey led the charge to significantly reduce the individual income tax rate. However, angered by what they saw as an attack on the voter-approved tax increase for education, the Red for Ed community has successfully referred the tax cut to the ballot. Due to this, the tax reduction remains on hold until the voters decide in November. With this uncertainty, coupled with the state's continued revenue bonanza, some key legislators are discussing repealing the tax cut (thus rendering the referral moot) and replacing it with something even more substantial.

Outside of spending issues, a theme of this session so far has been legislation regulating private business activities. As pandemic politics continue to rage, legislators have introduced numerous bills aimed at preventing businesses from instituting vaccine mandates. These range from making employers liable for vaccine-related injuries to requiring businesses to pay substantial severances to noncompliant employees. Other proposals in a similar vein would require financial institutions to provide banking services to the firearm industry. These anti-business proposals face an uphill battle, as the chambers of commerce and other business groups are staunchly opposed, but the populist furor at the legislature is strong.

While Arizona legislative sessions are supposed to run for about 100 days, last year's session ended on day 171 — the third-longest ever. With many of the same dynamics at play this year, much of the capitol community expects a repeat. But who knows? Perhaps the election later this year motivates legislators to complete their business in a more timely manner.

John Fetherston
Director
Veridus

Five Signs Your Business Is Ready To Grow

By Karl Klingenberg, Bankers Trust

Growing your business and taking it to the next level is an exciting time. There are so many ways to grow your business, including hiring more people, obtaining new technology, expanding your space and creating a more robust digital presence. The question is, how do you know your business is ready? Here are the top five signs your business is ready to grow.

1. You have had at least three to five years of consistent financial growth

Before you decide to grow your business, you want to make sure you are in a good place financially and have strong potential for long-term financial growth. While just one year of profits — gross income minus expenditures — shows your business is doing well, having at least three to five years of increases shows consistency and indicates financial sustainability in the future.

Another financial indicator is that you have steady, positive cash flow, and your short-term financing is no longer keeping up with your business needs. For example, if you are selling inventory at record amounts with increasing profits, but your short-term financing is insufficient to fund your growth, you may be ready to expand.

2. You're having a hard time meeting demand

Having more demand than you can supply is a sure sign your business is doing well. However, many business owners mistake this for the only indicator they need to grow their business. Although it's a strong indicator, it's important to first determine if the high demand is temporary or if it's sustainable for years to come. Similar to showing three to five years of financial growth, it's important to show multiple years of high demand with reasonable belief demand will continue.

If you're not sure demand will be sustained, consider more temporary expansion options to meet demand right now. Examples of less permanent strategies to meet demand include leasing technology or workspace instead of buying and using subcontractors or freelancers instead of hiring employees. These allow you to test future demand without making a large investment upfront.

3. You have new market opportunities

When assessing new market opportunities, it is important to first identify the strength of your industry. If you operate within an industry that is booming, it will be easier to grow your business. Conversely, if your industry is fading, expansion may be difficult because it might not be sustainable. However, a more stagnant industry could be an opportunity for your business to focus on expanding your product or service offerings.

Another great way to identify if your business is ready for growth is to simply listen to your customers. Are they asking for more products, expanded service hours or additional locations? If they are, it can be a strong indicator it is time to grow to meet those new needs.

Finally, is there a component in your supply chain you could begin producing yourself? By controlling your supply chain, you can reduce your costs and risks and ultimately increase profits.

4. You have run projections, and they look promising

When creating a business plan or considering expanding your business, it's vital you run projections on your plans. Projection calculations look different depending on the type of business and industry, but most include a sales forecast, expenses budget, cash flow statement and balance sheet to confirm there will be — and when there will be — a return on investment. Lenders and investors also often require these calculations.

5. You have a team you can rely on

Your business wouldn't run well without a supportive team, and it certainly won't grow without one. If you are thinking about growing your business, first look at your management team. If you have a strong, stable management team that is just as excited about your business model and potential growth as you are, that is an excellent sign you will have the right support when it comes to expansion. The same goes for your employees. Are they excited about the prospect of more business and opportunities to advance their careers? If you can't identify these qualities in your team members, you may want to set the growth plans to the side until you are sure you have a strong team ready to grow with you.

Your advisors are another crucial part of your growth team. You may need an accountant to confirm your financial growth over the years, a banker to provide that next line of credit to expand your company, an equipment finance lender to help you obtain new technology, or a real estate professional to help you select a new location. These partners are essential because they serve as your advocates, helping you avoid any pitfalls during your expansion and putting you on the path to success.

Ready? Set. Go!

If you have demonstrated financial strength, see market opportunities and have a great team at your side, it may be time to put your growth plans into action. ◗

Karl Klingenberg is a Vice President, Business Banking Relationship Manager at Bankers Trust. He joined the bank in 2021, bringing nearly 20 years of banking and finance experience. Karl's tenure in banking has been primarily at small- to mid-sized community banks, and he most recently filled the roles of Business Development Officer and Business Banking Relationship Manager before coming to Bankers Trust. Karl can be reached at KKlingenberg@bankerstrust.com.

Will Community Banks Have Enough Reserves For CECL?

By Jay Kenney, SVP & Southwest Regional Manager for PCBB

While many bankers are working on the adoption of the accounting standard for ***current expected credit losses*** (CECL), they may find detours on their path as well, including some CECL myths. When we started with CECL, the initial expectation from most of the big banks was that there would be a significant increase in reserves overall. Then, the pandemic hit and credit loss reserves increased dramatically — from $13.9 billion to $52.7 billion. But, as of Q1 2021, $14.5 billion of reserves had been released, according to the FDIC Quarterly Banking Profile. So, what is going on with the reserves? The September 9 report by the Congressional Research Service notes that it remains very difficult to determine which changes in reserves are a result of the pandemic and which are driven by CECL.

Given that it's difficult for the experts to separate the impacts of COVID and CECL on reserves, it is not surprising to hear that certain myths have surfaced. We bust four CECL myths to ensure that you are well-informed as you implement CECL.

Myth 1: CECL will be delayed. At a recent year-end presentation by the accounting firm Plante Moran, 10% of the audience believed that CECL would be further delayed. While anything is possible, a further delay in CECL is quite unlikely. The standard became effective for most SEC filers in fiscal years and interim periods beginning after Dec. 15, 2019 (with temporary relief in the CARES Act). For all others, it takes effect in fiscal years beginning after Dec. 15, 2022.

Regarding when regulatory agencies expect you to start working on CECL, it seems to vary by geographic region. We have heard about requests for CECL implementation plans by regulatory agencies on the coasts, while others in the Midwest report being told that running in parallel for two quarters is sufficient. Regardless of where you are located, plan on applying the CECL accounting standard. Myth busted!

Myth 2: CECL will cause your reserves to dramatically increase. We've been actively working with community banks on CECL since 2018. Now, nearly four years later, most community banks report that their reserve rate hasn't materially changed. What has changed is the proportion of the reserve based on qualitative factors. Generally, when compared to incurred loss, qualitative factors are smaller under CECL as the CECL models are more inclusive than incurred loss. Obviously, if you are currently under-reserved compared to your peers for loans of similar characteristics,

If you are not using a vendor, then you have much more to learn, research, and discuss. You'll need to verify that you have relevant and predictive sources of supplemental data appropriate for an institution of your size and complexity.

you are likely to see your reserves increase. However, most successful community banks are reasonably prudent and are likely to expect minimal changes in their final reserve rate (assuming similar economic conditions). Myth busted!

Myth 3: CECL requires lots of data. It is true that when discussions with CECL started, we were among the very many who advised that you focus on your data. After all, CECL requires an adequate history of loss data. Over the years, we've found that most successful community banks don't have a deep history of losses. Furthermore, with the release of SCALE, the use of supplemental data has come into full acceptance. If you have access to relevant supplemental data (assuming no deep history of losses), you don't need to spend time and energy cleaning and auditing historical data. Instead, focus on cleaning your current period data and identifying the right supplemental data for your institution. Myth busted!

Myth 4: Adopting CECL takes time. This myth contains elements that are true. It's true that it takes time to understand what's different under CECL, as would be the case with the adoption of any new standard. Internalizing this complex standard takes time. However, running in parallel helps you understand it better and provides time to test and validate assumptions.

Having said that, with reasonably clean data and vendor support, our experience has found most community banks can get CECL estimates within 90 days (assuming, of course, that you and your vendor answer each other's questions promptly). For information on finding the right vendor, review our previous BID article on this topic. Myth mostly busted!

If you are not using a vendor, then you have much more to learn, research, and discuss. You'll need to verify that you have relevant and predictive sources of supplemental data appropriate for an institution of your size and complexity. You'll want to review your model assumptions for completeness and suitability, and you'll need to talk with your auditors and examiners about how your model was built.

Hopefully, by myth-busting these CECL assumptions, we have given you the information you need to move forward with CECL implementation. If you find that your CECL adoption is not going as smoothly as you would like, are unsure if SCALE is for you, or need additional guidance, we can help. ◗

PCBB has a C&I program that can increase your loan portfolio. To learn more, please contact Jay Kenney at pcbb.com or jkenney@pcbb.com.

New To Investing?
Don't Forget To Diversify

By Frank Schoen, Bankers Trust

A record number of individual investors dove into financial markets in the last two years — many of them nontraditional investors with less investment experience.

With cryptocurrencies and investment apps making headlines, many felt encouraged to begin investing for the first time. As they eased in, buying only stocks from just a select few companies — often at the recommendation from a friend or social media influencer — many may have skipped a crucial step when beginning to invest: considering the risks and creating an asset allocation approach to properly diversify their investments.

Why are asset allocation and diversification important?

To put it simply, asset allocation is the process of apportioning a portfolio into different asset categories to balance risk and reward. Markets go up and down over time, and as a result, so will the value of your investment portfolio. Therefore, it's important to include a blend of investments in your portfolio, such as stocks, bonds, and cash, to ensure an optimal balancing of risk and reward.

Not diversifying enough exposes you to a great deal of risk. Properly diversifying is the key to a successful long-term investment strategy and is arguably one of the most important decisions investors make. In fact, strategically allocating your assets is even more important than closely watching and trying to predict the economy, bond market and stock market.

How to create an asset allocation approach to diversify investments

The appropriate asset allocation is unique to each investor. To determine what is right for you, start by considering these three questions.

1. What is your risk tolerance?

One way to determine the answer to this question is to ask yourself, "How would I feel if the market and economy suddenly crashed?" Would you immediately want to sell all your investments? Or would you be comfortable letting the situation play out?

If stock volatility makes you anxious, you may consider investing more heavily in stable, fixed-income types of investments such as bonds. In contrast, if you are willing to take on more risk for the potential of higher reward, you may consider allocating more heavily in growth assets such as publicly traded stocks.

2. What are your objectives?

Another important question to answer is, "What am I trying to achieve with my investments?" For example, are you primarily saving for retirement? Are you looking for a steady source of additional income? Or are you accumulating wealth for a family or charitable trust?

"Not diversifying enough exposes you to a great deal of risk. Properly diversifying is the key to a successful long-term investment strategy and is arguably one of the most important decisions investors make."

If your goal is primarily income, you may decide to more heavily weight bonds in the asset allocation. In contrast, if the primary goal is to accumulate wealth, you may choose to more heavily weight stocks in the allocation.

3. What is your time horizon?

If you have a short time horizon, you may be less inclined to accept higher risk. For example, if you are primarily investing for retirement and are nearing retirement age, you may decide to scale back on riskier investments, such as stocks, and focus more on stable assets such as bonds, supporting the need for income as well as preserving capital in stock market declines. In contrast, if you do not anticipate needing your investment assets soon, you may decide to take on more risk, knowing that if there is a stock market decline, your investment portfolio has plenty of time to recover a loss.

You can't predict the market

If you're new to investing, the thought of using your savings to buy a few select stocks you feel confident in may seem like an exciting new experience, but you must keep in mind that no one can predict the future.

One thing we can expect is that the market will continue to move up and down for a variety of reasons. Actively diversifying your investments with a well-thought-out asset allocation will help mitigate investment risk while leaving the opportunity for growth.

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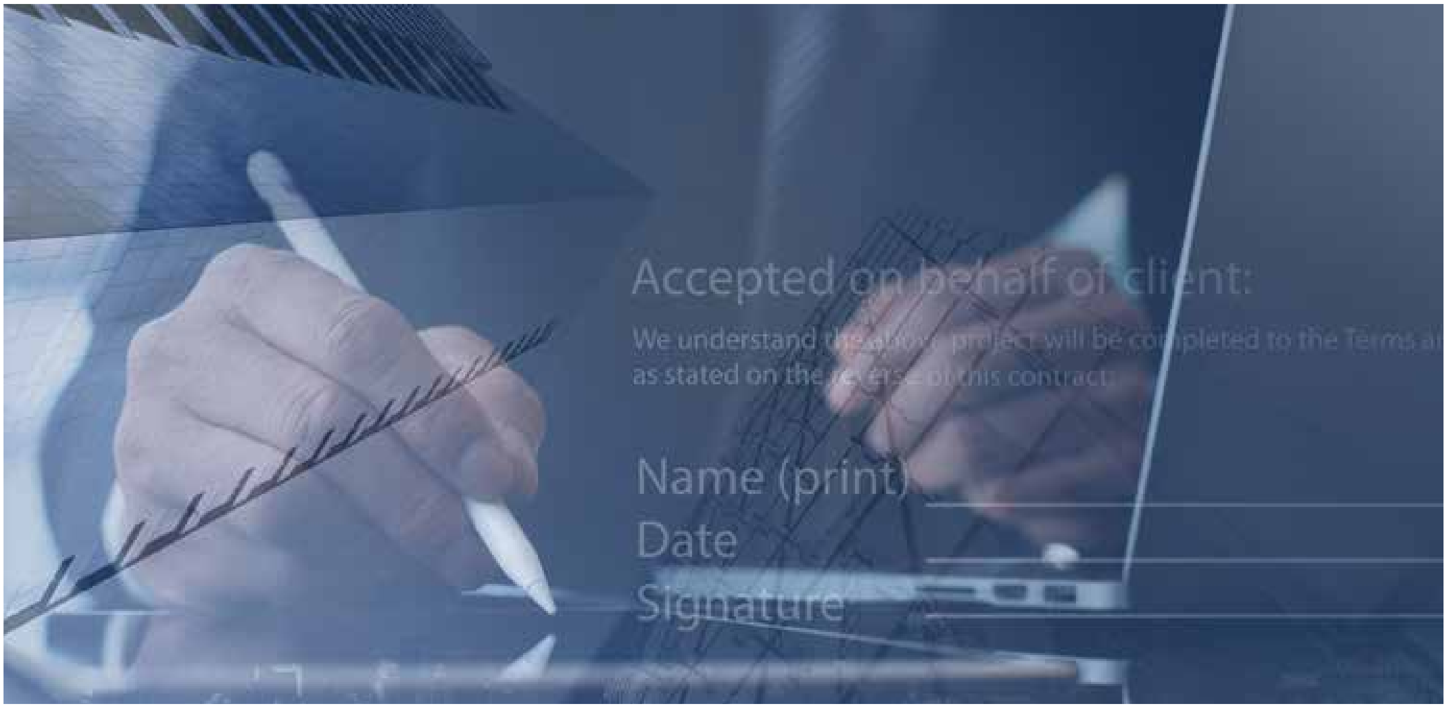
Frank Schoen is Vice President and Senior Private Client Wealth Advisor at Bankers Trust and is a CERTIFIED FINANCIAL PLANNER™ and Certified Private Wealth Advisor®. He joined the bank in 2021 and has over 15 years of experience in the wealth management industry. He can be reached at FSchoen@bankerstrust.com.

Are You Leveraging the Many Benefits of eNotes?

By Diane Jester, Managing Director, Credit & Collateral Risk Management, FHLBank San Francisco



The COVID-19 pandemic has accelerated the digitization of many financial operations, and this includes the increasing use of electronic promissory notes. As we work to develop new products and services to meet the evolving needs of FHLBank San Francisco members and their customers, we're pleased to report that as of Mar. 31, 2021, we began accepting eNotes as pledged collateral from our member financial institutions.

For those financial institutions — whether FHLBank members or not — that may be just beginning to explore the adoption of eNotes, I'll begin with a brief overview.

In simple terms, an eNote is a promissory note that is created, signed, and stored electronically according to the standards for transferrable records established under the Electronic Signatures in Global and National Commerce Act (ESIGN Act) and Uniform Electronic Transactions Act (UETA), collectively known as the eSignature Laws.

To be considered a transferrable record, an eNote must:

1. Have the same terms and conditions as a wet-signed paper promissory note would have under Article 3 of the Uniform Commercial Code;
2. Be electronically signed;
3. Reliably establish the identity of the entity/person who has the authority to control the eNote in a sale or pledge as collateral (control of an eNote is established if the eNote is created, stored and assigned in a manner that ensures that a single authoritative copy of the eNote exists); and
4. Be signed using an eSignature process and secured by a tamper-evident signature and Version 1.02 MISMO Category 1 SMART Doc®.

Not all electronic notes qualify as eNotes, as defined by the eSignature Laws and the government-sponsored enterprises (GSEs) — Fannie Mae, Freddie Mac, and the FHLBanks. Examples of electronic notes that are ***not*** eNotes include the following:

- A scanned copy of a paper note
- A situation in which the borrower did not consent to an eNote upfront
- An electronically signed note without a single authoritative copy (that is, copies are created that are not easily differentiated from the original)
- An electronically signed note that is not stored in an eVault or not listed on an eRegistry such as the MERS® eRegistry
- An electronically signed note that is not a SMART Doc

We've also seen some confusion regarding the difference between eNotes and eSignatures. Documents, including promissory notes, with eSignatures, are documents signed electronically, per the ESIGN Act. eNotes, in contrast,

> The use of eNotes is rapidly becoming a standard part of the residential lending production process, and more and more lenders are including eNote implementation in expense planning. As of January 2022, 165,729 eNote loans had been registered.

are promissory notes that adhere to the eSignature Laws, both the ESIGN Act and UETA. So, while eNotes are also electronically signed, there are other loan documents (disclosures, for example) that may have eSignatures without having to comply with both eSignature Laws.

A lender's origination process may include eSignatures even if the process does not include eNotes, or the lender may use hybrid closings in which borrowers electronically sign some closing documents while wet-signing other documents, like the promissory note.

There are costs involved in the transition to eNotes. Both the MERS eRegistry and eVault providers charge individual loan transaction fees to register an eNote or transfer a loan to an eVault. In addition, eVault providers may have a one-time or annual fee. However, lenders' overall costs will be lower after adopting eNotes.

The FHLBank eNotes acceptance implementation process

The eNote requirements for FHLBanks were developed in 2020 to align with those of the other GSEs to ensure there is a single standardized process for lenders to sell, hold, or pledge eNotes. After finalizing the requirements, FHLBanks worked with the MERS eRegistry to establish the FHLBanks as a secured party when lenders pledged eNotes to us as eligible collateral.

The final phase of FHLBank San Francisco's implementation journey began in late 2020 when they launched a pilot project with a member lender that already had the key requirements in place to begin pledging eNotes to us. This seasoned member had:

- Selected and implemented its eClosing system;
- Become a member of the MERS eRegistry and completed set up and testing with MERS; and
- Selected and engaged an eVault provider.

The pilot was designed to enable us to develop and test critical procedures for the acceptance of eNotes. These procedures enabled a member to provide detailed reporting of its pledged and de-pledged eNotes and transfer eNotes to our eVault, with FHLBank San Francisco as a secured party.

Following the successful conclusion of the pilot, we are now able to accept eNotes for 1-4 family mortgage loans and closed-end second mortgages as pledged collateral from any member ready to pledge them.

Lenders embrace eNotes

The use of eNotes is rapidly becoming a standard part of the residential lending production process, and more and more lenders are including eNote implementation in expense planning. As of January 2022, 165,729 eNote loans had been registered.

There is good reason for the uptick in the adoption of eNotes, as they offer greater convenience for consumers, lower costs for lenders and quicker transfers of ownership. More specifically, the use of eNotes offers the following benefits:

- A faster and easier signing process
- Earlier loan funding
- Flexibility in signing and closing locations
- Reduced shipping and storage fees
- Fewer signing errors
- Less paper
- Improved collateral control and audit capabilities
- Elimination of lost paper notes

Take the next step

If your institution has not yet begun pledging eNotes, contact us to explore the opportunity to transition away from wet-signature notes. More information is also available on our eNotes page at fhlbsf.com. Resources include a "What is an eNote?" video, detailed eNotes Collateral Acceptance Requirements and Guidelines, and an eNotes Readiness Checklist. ◗

Watching Out for Your Customers

By Lisa Kreienberg, Creative Director, Jay Financial and
Jeff Hughes, Director of Insights, Jay Financial

Now, more than ever, your customers need a banker watching out for them.

Growth opportunities abound for community banks that proactively help customers relieve financial stress.

The fact that consumers are under significant pressure today comes as no surprise. Two years into a global pandemic, it is surprising that it's not health, family or job issues that present the most prominent cause of stress — it's household finances.

Even more unexpectedly, higher income doesn't necessarily equate to less stress.

Below are some of the many highlights of the consumer research Jay Financial presented to the Arizona and Colorado Bankers Conference in November, based on recent surveys of Arizona and Colorado banking decision-makers belonging to the Generation Z, Millennial and Generation X age groups.

Where there's need, there's opportunity

Triggering consumers' financial stress is a diverse array of immediate and longer-term concerns that people are eager to resolve. These uncertainties become priorities, driving interest in specific financial services and solutions.

Consumer interest in solutions is immediate

The Gen Z, Millennial and Gen X customers walking into your branches or engaging your digital channels — right now — have on average 3.3 financial priorities they want to address and 2.4 financial services or tools they are interested in obtaining.

Table: Percent of survey respondents selecting each of the following as their top financial priorities and top financial services and tools of interest

Top Financial Priorities

Grow your savings/wealth	46%
Manage day-to-day finances more efficiently	39%
Have a well-stocked emergency fund	38%
Have enough money for retirement	33%
Save for a major purchase (home, education, etc.)	32%
Have enough insurance to protect against the unexpected	23%
Pay off student loans or high-interest debt	22%
Increase the income from your investments	21%
Start or grow a business	20%

Top Services and Tools of Interest

A plan to get your spending under control	36%
A plan to pay off existing debt	35%
Setting up an automatic savings plan	33%
Access to online day-to-day budgeting/ money management tools	27%
A plan for investments/asset allocation	25%
Access to online financial planning tools	25%
Help with creating a retirement plan	23%
Online alerts to help you track and manage account balance	23%

Community banks have a unique competitive advantage

The more complex or important the need, the more Arizona and Colorado consumers want to address these issues face-to-face with a banker. Between 62% and 77% of respondents prefer personal interaction when opening accounts, resolving account issues, learning about online/mobile/digital banking features, and getting advice about financial planning, retirement planning or household budgeting.

This continued interest in personal contact is a specific reason consumers continue to value branch visits.

- 83% of survey respondents agreed that branches are an important part of the banking experience
- 61% are visiting branches the same as or more than before than pandemic
- 68% visited a branch at least once in the previous 30 days

For those who prefer face-to-face contact, community banks are preferred over regional or national banking competitors, representing a significant competitive advantage. Undoubtedly digital banking strategy is critical to any bank's ongoing success, but the survey data raises an equally critical question for community bankers:

What is your face-to-face banking strategy?

Looking out for your customers:

Previous Jay Financial research points to the importance of being known as a bank that looks out for its customers. This research, as well as our direct experience managing bank marketing communications campaigns, demonstrates that customers who perceive their bank is looking out for them are more loyal and more likely to open additional accounts than customers who feel otherwise. This takes customer advocacy — doing what's best for your customers, even though it might not be best for the bank — one step further, in that the bank proactively finds ways to be the customer's advocate. Often, consumers feel they don't have time to address their financial priorities, don't know how to express what they need, or don't know where to begin.

A proactive bank gets the conversation started for them.

This typically happens through your people at the branch level, although they will be more successful if supported by effective, needs-based merchandising, sales literature, and online resources. Ultimately, a data-driven sales and marketing communications plan is called for to deepen relationships with your customers by helping improve their financial management and financial security. In our experience, it can strengthen your brand, sell more products, and create happier, more loyal customers. ◗

Lisa Kreienberg
Creative Director, Jay Financial
With over a quarter-century of developing successful marketing campaigns, Lisa truly appreciates how effective creative demands provide meaningful strategic insight.

Jeff Hughes
Director of Insights, Jay Financial
With over 40 years of experience in data-driven marketing for financial institutions, Jeff excels in helping clients better understand the customer and market dynamics to drive incremental growth.

Primax Payments Pulse:

Consumer Spending Strong through the Extended Holiday Shopping Season

The Primax Payments Pulse: 2021 Holiday Spending Report takes an in-depth look at year-over-year, same-store financial institution comparisons, and provides a three-month view of consumer transactions and trends during the 2021 holiday spending season.

The extended 2021 holiday shopping season (October through December) saw strong consumer purchasing, even with a substantial surge of COVID-19 cases due to the omicron variant, with the strongest share of weekly purchases — similar to previous years — during the four weeks beginning Thanksgiving week. "Despite pandemic-related challenges and supply chain difficulties, consumer spending remained strong, and many resumed in-person holiday shopping," said Brian Scott, SVP, Chief Growth Officer for Primax.

Growth in purchases outpaced growth in transactions, and growth in Card Present (CP) activity outpaced growth in Card Not Present (CNP) compared to the same quarter in 2020. "Notably, the 2021 holiday shopping period saw consumers reverting to more typical levels of credit card usage, reversing the trend from the prior two years in which more transactions were processed on debit cards," said Scott.

Key takeaways from our Holiday Spending Report include:

1. Credit card usage continues to rise. Consumer spending was very strong for both credit and debit purchases in the fourth quarter, with growth in credit continuing to outpace debit. Credit purchases were up 24%, and debit purchases were up 17% compared to the same period in 2020. For credit purchases in the fourth quarter of 2021, all sectors reported growth above 2020 levels. Compared to 2020 Q4 results, Entertainment and Travel credit purchases were up 119% and 112%, respectively. Transactions grew at a slower rate than purchases, providing a slight improvement to average purchase sizes.

2. Growth in our same-store population of financial institutions outpaced market predictions, with purchases in the Goods sector up 13.7% for credit and 11.8% for debit over the cumulative three-month holiday season. The strongest period for purchases remained Thanksgiving week through the week before Christmas. Consumers resumed in-person holiday shopping, with Goods sector Card Present (CP) credit purchases up 20.9% and CP debit purchases up 12.4% compared to 2020.
3. The CPI-U for December increased to 7.0%, the largest yearly increase since June 1982. The "core" PCE (Personal Consumption Expenditures) price index, excluding food and energy prices due to their volatility, rose to 5.5% in December — the most significant 12-month increase since February 1991. The Federal Reserve is wrapping up its large-scale bond repurchase program by spring and hinted that interest rate changes could come as early as March to curb the high inflation.
4. Workers remained in short supply as many retailers paid premiums for seasonal holiday staff. The unemployment rate fell to its lowest point since the onset of the COVID-19 pandemic, registering at 3.9% in December with 199,000 jobs created. Prior to the pandemic in February 2020, the unemployment rate was 3.5%, with 5.7 million unemployed. Sourcing employees remains a top concern.

Looking Ahead

Almost two years into the COVID-19 pandemic, consumers are growing increasingly weary and yearn for a return to some sort of "normal," and this sentiment is reflected in spending habits. As consumer preferences and behaviors continue to shift and evolve, Primax will deliver timely, relevant insights into consumer spending trends. We hope that these insights will help our financial institutions make informed decisions as we journey through 2022.

To access the complete Primax Payments Pulse: 2021 Holiday Spending Report, visit Primax.us/Insights. ◗

ABOUT PRIMAX
Primax provides community banks with payment processing services and an expansive array of value-added technology and solutions. Primax's customizable solutions, including risk management, mobile and online card management, data and analytics, loyalty programs, marketing, strategic consulting, delinquency management and contact center services, help community banks profitably grow their portfolios and deliver an unparalleled experience to their account holders. With a longstanding commitment to service excellence, Primax has been designing and providing support services for banks throughout the U.S. and the Caribbean for over 40 years. For more information, visit primax.us.

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