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The Five Dollar Farce:

WHY THE CFPB'S LATEST RULE IS BAD FOR BANKING & WORSE FOR CONSUMERS.

AN OFFICIAL PUBLICATION OF THE
KENTUCKY BANKERS ASSOCIATION.

WHO WE ARE: The KBA is a nonprofit trade association that has been providing legislative, legal, compliance and educational services to its member institutions since 1891. KBA's directors and staff work together with its members to make the financial services industry a more effective and successful place to work. The strength of the KBA is bankers unifying as an industry to speak as one voice.

WHAT WE DO: The purpose of the Kentucky Bankers Association is to provide effective advocacy for the financial services industry both in Kentucky and on a national level; to serve as a reliable and responsive source of information and education about areas of interest to the industry; and to provide a catalyst and forum for collective industry action. The KBA does this in 4 ways:

1. Government relations & industry advocacy
2. Information interchange
3. Education
4. Products and services

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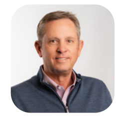
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April Perry receives her ceremonial pin after accepting the role of KBA Chairman at the 2024 KBA Convention

The CRA Balancing Act: Community Needs vs. Sound Practices

by **April Perry |** *KBA Chairman*

CRA (Community Reinvestment Act) has gotten a lot of attention recently, especially in Kentucky. So, what exactly is CRA? It is a law that requires banks to meet the credit needs of their communities. Although the law encourages banks to serve low and moderate-income neighborhoods, banks are expected to do so within the restraints of safe and sound banking practices. According to CRA, the bank is considered satisfactory if > 50% of qualifying loans (home mortgage loans, small business loans, and small farm loans) are in a bank's service area. If the percentage falls below 50%, the bank's "story" of how it serves its community should aid in obtaining a satisfactory rating.

Recently, the FDIC's measure of CRA success in KY seems to boil down to only the percentage of loans made in one's service area. In fact, the rate of the bank's 2023 HMDA loans inside their service area seems to be the initial factor in determining compliance.

But what happens if you make all the loans in your community that make economic sense and still have excess deposits? Sitting in cash isn't an option, and the fed funds rate does not provide a return that contributes to a net interest margin that supports a healthy bank. A bank may choose to invest in securities or make loans outside their service area, often in the form of participation loans. These participation loans could be with other banks or Hope of the Midwest. Although these investments may not be in the bank's service area, the loans certainly provide an economic benefit; in the case of Hope of the Midwest projects, banks provide financing for affordable housing. In addition, the return on these investments returns to the bank's community in the form of interest for local depositors, employment for local people, and donations to community agencies. Banks also pay taxes on their income, supporting local taxing entities, the state, and the federal government.

Credit Unions were granted tax-exempt status in 1934 as they were tasked with meeting the credit and savings needs of low-income working and rural households. Their mission sounds a lot like the purpose of CRA to me. But how do you measure their effectiveness? Credit Unions are not subject to CRA. No federal agency examines their activities to make sure they are meeting the needs of the low and moderate-income community and thus earning their tax-exempt status. Federal chartered credit unions are not even required to file a Form 990 tax form which provides transparency as to whether an organization meets the requirements for tax exempt status.

But credit unions are not banks, and banks are subject to CRA. Rest assured, the KBA is committed to ensuring that banks are recognized for their value to their communities! In the meantime, know your numbers. Expand your service area if you have the expertise to do so and the risk/ reward equation makes sense. Don't create safety and soundness issues in an attempt to appease CRA examiners! Keep track of the ways you support your community and our commonwealth. And be prepared to tell your story! If all else fails, reach out to the KBA. We are here to support KY banks and our industry!

My CHRISTmas Ask

WHEN IT COMES TO CHRISTMAS, I'VE GOT MORE THAN A FEW WISHES FOR OUR INDUSTRY IN 2025.

by **Ballard Cassady** | *KBA President & CEO*

Let's be honest. I don't care how old you are or how much money you have; you've got a Christmas Wish List. For some, it's that every holiday traveler in the family arrives safe. Or to watch a grandchild's First Christmas. Or to celebrate with each of your children's "partners" at their sides (see, I can sound sensitive when I try). These are things money can't buy, and only God can provide.

My wish list included all the above –– plus a few more on behalf of our industry.

1. ROHIT CHOPRA IS GONE FROM THE CONSUMER FINANCIAL PROTECTION BUREAU (CFPB) BY NO LATER THAN JANUARY 20.

And Congress finally realizes that the CFPB is a redundant, useless, failed agency that – like our Department of Justice (DOJ) –– has become a global laughingstock for having NEVER done anything to protect the consumer. I wish for a Congressional hearing in which the right questions finally clarify that the CFPB has primarily hurt consumers with higher fees (as a result of costing banks more to operate) or by losing access to a product (when CFPB compliance grew too costly for community banks to offer it).

2. THE FDIC AND OCC STOP ACTING LIKE THEY WORK FOR THE CFPB.

While I'm at it, I may as well wish for an FDIC Chair who can clean up its infamous internal mess (see September/October 2024 issue of Kentucky Banker Magazine) in a hurry and focus on its core functions.

3. THE FEDERAL RESERVE APPOINTS A VICE CHAIR OF SUPERVISION WHO'S WORKED IN A BANK AT SOME POINT IN THEIR CAREER.

** VC Barr is a nice person and an intelligent man (Oxford, Yale, Treasury, Professor) but the job clearly needs more than that. The Fed was inside Silicon Valley Bank for at least 2 ½ years prior to its failure. They knew about the problem but essentially did nothing. Then Congress (a whole different story) let them investigate themselves and found that they had "some" culpability but that the bank board wouldn't listen to them…REALLY! I can't imagine that happening with a Vice Chair of Supervision with actual banking experience in place. Say, ***someone like Governor Michele Bowman.***

4. CONGRESS SHOULD REMEMBER THAT IT'S NOT A REVENUE PROBLEM AMERICA HAS; IT'S A SPENDING PROBLEM.

Federal tax revenue has increased 33% since 2017 while spending increased more than 50% over that same time frame.

5. MEMBERS OF CONGRESS BEGIN TO ACT AS IF THEY'RE THERE TO MAKE AMERICA GREAT RATHER THAN THEMSELVES.

They're only human, and the inherent temptations are great – so is the pension and all the trappings– but with great privilege comes great responsibility. That will mean some honest diversity of opinion on both sides of the political aisle, even in the face of party leader retribution. There are some members up there that need to, as my ole

granny used to say, *"grow a pair"*.

I've actually got a little hope for these Christmas wishes.

If the '24 election showed anything, it's that Americans understand the fundamentals of government and the economy better than some political operatives wish they did. We know deficits are a danger, but the reasons for a deficit matter to us – and they're not created equal.

It's one thing to have a deficit to strengthen our military or improve our infrastructure or to care for our veterans, aged and infirmed. But deficit spending to treat illegal immigrants better than our own veterans or poor? Or to pay off the college loans of a privileged few? Or for research into why chimpanzees throw their feces?

So, I'm adding one more Christmas wish that goes beyond our industry: That the new Department of Government Efficiency will publish findings that help the American voter see how we got into such a dangerous debt hole and how to get out of it. For starters, we might tell our members of Congress to either outlaw 'pork' add-ons (ear marks) or step aside for someone who will. Hey, a guy can dream.

I'm asking for a lot, especially as a man whose deepest wishes for his family have already come true this Christmas. So maybe it's time to restate the wishes as New Year's resolutions. Therefore, be it resolved: that I will do my part to make these wishes a reality in 2025.

Wishing all our members a Happy and Hopeful New Year!

***** Mission accomplished. Come February 28th, 2025, Barr will resign as VC of Supervision.***

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EQUAL HOUSING LENDER

The Five Dollar Farce:

WHY THE CFPB'S LATEST RULE IS BAD FOR BANKING & WORSE FOR CONSUMERS.

by **Tim Schenk |** *KBA General Counsel*

In November, testifying before the House Financial Services Committee, representatives from the OCC, FDIC and Federal Reserve testified that there are no plans to finalize major rulemakings until next year, when President-elect Trump will likely appoint new leaders to the FDIC, OCC and CFPB. Notably absent from the list of agencies committed to "put the pen down" was the CFPB.

The American Bankers Association and others encouraged the CFPB to make the same commitment as the other prudential regulators; however, those calls fell on deaf ears as Director Rohit Chopra continued on from his unfettered bully pulpit. In what may not be his last move, but one that certainly defied "putting the pen down," Director Chopra and the CFPB issued a final rule that caps overdraft fees at five dollars without an APR disclosure.

Under the final rule, the CFPB plans to reclassify overdraft fees as loans subject to interest rate disclosures under the Truth in Lending Act. According to the CFPB, the rule "would apply only to the largest banks and credit unions with more than $10 billion of assets, impacting roughly 175 financial institutions." And therein lies the rule's fatal flaw.

It's important to recognize the other agencies for following the tradition of "putting the pen down" when new leadership is imminent. The reasoning is simple: why saddle your successor with Congressional Review Act challenges, lawsuits, and flawed rules that you won't be around to defend or manage? Director Chopra, however, seems unconcerned with this precedent—or with the consumers he was tasked to serve, based on his track record. Why, then, should he worry about his successor? But I digress.

Looking at historical precedence, let's consider Dodd-Frank. It's well-known that Dodd-Frank doesn't just impact banks with over $10 billion in assets. While direct rulemaking often targets these larger institutions, it's nearly impossible to find a community bank in the United States that hasn't felt the ripple effects of such regulations. If a neighboring bank is forced to cap overdraft fees at $5, wouldn't your smaller bank also feel pressured to match that rate to remain competitive? Most would agree. This rule is clearly a backdoor strategy for the CFPB to extend its control over all banks, regardless of size. In reality, this rule impacts far more than the 175 institutions it claims to target and places every bank squarely in the CFPB's crosshairs during the waning weeks of its current administration.

The final rule offers three options for banks to comply with this regulatory burden: 1) cap overdraft fees at $5; 2) implement a "break-even cost analysis" to justify fees; or 3) disclose overdraft fees as loans under the terms of Regulation Z.

The first option—dropping fees to $5—might seem like the "safe" choice. In theory, it shields banks from further scrutiny. However, in practice, it could lead to financial losses, force banks to reduce customer products and services, or even eliminate overdraft programs altogether. While it may keep you compliant, the long-term impact on profitability and customer offerings is far from secure.

The second option proposed by the CFPB is the so-called "break-even cost analysis." While I don't claim to know everything, I did learn a few fundamentals in school—lessons that may not have been in textbooks but hold true nonetheless. For example: "Businesses have to make a profit to survive; if it doesn't make money, it doesn't make sense." Or, "You get what you pay for." These basic principles seem to have been overlooked in the CFPB's proposal. While I may not have attended Harvard like Director Chopra, it's clear we received vastly different educations. I was taught that profitability is a basic requirement for any business endeavor. Chopra, it seems, was taught that as long as you can break even, it's acceptable.

But let's be honest—how does a break-even approach make any sense? How does it account for losses from unpaid overdrafts, fraud, or even administrative costs? Isn't "break-even" a constantly moving target, given the unpredictable nature of these factors? Calculating such a figure is not only impractical but likely impossible. It's an option that feels more like an ill-conceived "out" for the CFPB—essentially saying, "go ahead and try to charge more if you dare," without providing clear or realistic guidance. In short, it's nonsensical.

Finally, the third jewel in Chopra's crown of regulatory overreach concerns disclosure terms. This isn't as simple as stating that the overdraft fee is $10, $15, or $20. Instead, banks must meet the complex and burdensome requirements of Regulation Z. Anyone who recalls the arduous process of implementing TRID will understand that this is, at best, a stressful and overly complicated mandate—if not an entirely impossible one.

Before Chopra's outgoing rule was finalized, over 9,000 comments were submitted, many of which advocated for overdraft safe harbors significantly higher than the proposed $5 cap. From March 25, 2021, to March 25, 2024—the month before the comment period closed—the CFPB received 2,874,457 complaints. Of these, a staggering 2,227,618 complaints, or approximately 77%, were related to credit reporting. This overwhelming majority highlights that consumer concerns are largely centered around credit reporting issues, not overdraft fees!

However, despite the high volume and concentration of complaints related to credit reporting, the KBA is not aware of any significant rulemaking action by the CFPB to address these issues. In contrast, complaints concerning checking and savings accounts totaled only 119,931 during the same period—a mere four percent (4%) of all consumer complaints. Moreover, these complaints were not specific to overdraft fees. This disparity raises an important question: Why prioritize passing a rule targeting overdraft fees when consumers are clearly more concerned about other issues? The answer seems clear—this rule is not truly about addressing consumer concerns.

It is also critical to recognize that overdraft is a service, not a requirement. By reframing it as a punitive fee, the CFPB overlooks its role as a financial safety net for many consumers, further highlighting the disconnect between the rule and the realities of consumer needs.

The Washington Post said in an article, "For depositors, overdraft fees can be an expensive alternative to even worse options, such as payday loans or having their electricity shut off (and paying a reconnection fee to turn it back on). And "the best of bad alternatives" can also be sort of true for bankers, who must find some way to defray the cost of providing what is basically an unsecured loan to people who are, as we've seen, often financially struggling and might be unable to repay the money. The fees also help pay for "free" checking (which costs banks quite a bit of money to provide)." What happens if banks decide enough is enough and discontinue overdraft? Who will win? Not consumers. But again, is it really about them?

In announcing the final rule, CFPB Director Chopra stated, "For far too long, the largest banks have exploited a legal loophole that has drained billions of dollars from Americans' deposit accounts. The CFPB is cracking down on these excessive junk fees and requiring big banks to come clean about the interest rate they're charging on overdraft loans." However, overdraft fees have historically been transparent, and numerous studies indicate that consumers do not perceive these fees as excessive.

Perhaps it is time for Director Chopra to acknowledge that this rule reflects his personal agenda rather than the interests of the consumers he is tasked with protecting—a pattern that has been evident throughout his tenure.

The Blueprint for Board Compliance

WITH COMPLIANCE PRESSURE AT AN ALL TIME HIGH, DIRECTORS TAKE CENTER STAGE AT THIS YEAR'S SPRING CONFERENCE.

by **Jessie Southworth** | *KBA Director of Education*

Banks are among the country's most highly regulated industries, and the crushing weight of compliance looms like a shadow over every decision the banks make. Ironically, the individuals who carry the bulk of the responsibility for our bank's adherence to compliance are the ones who spend the least time within the institution: I'm speaking specifically about the Board.

When I think of Board responsibility, I'm reminded of Harry Truman's presidency. His was a term marred by global instability, where difficult decisions had dire national consequences. In the Oval Office, a sign on his desk read, "The buck stops here," - a testament that embodied his belief that he alone was responsible for the actions of his administration.

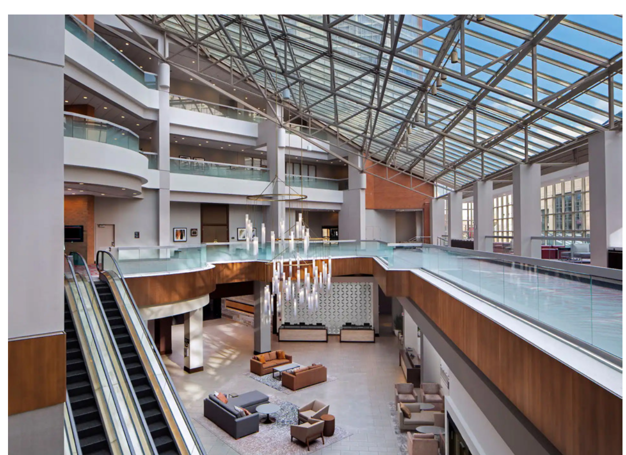
A Board at a financial institution holds the same responsibility for their bank that President Truman felt for the country. The buck stops with them, and they alone must accept ultimate responsibility for the successes and failures of the institution. It is a task easier said than done, especially since many board members work in other professions.

During my time as an examiner, I saw firsthand the knowledge gap between management and Board Directors. High-pressure examinations and often painful recommendations were handed down to even the most well-intentioned Boards, simply because they were unfamiliar with regulatory expectations.

Those expectations were presented in 1992 when the FDIC issued a letter to financial institutions called FIL 87-92. This letter emphasized that Directors are responsible for monitoring the progress of business operations and ensuring that policies and procedures encompass statutes, regulations, and principles of safety and soundness. Furthermore, the letter acknowledged that Directors have a fiduciary responsibility to ensure the success and regulatory adherence of the institutions they served. While many years have passed since the FIL was issued, those lofty expectations of the Board remain.

The KBA is aware of the growing knowledge gap between regulators and the Directorate. As such, we have made a commitment to empower boards across the state with the tools and resources needed to confidently lead in their institutions and beyond. To tackle this problem, our first point of contact will be our annual Spring Conference. Appropriately called "Officers & Directors Spring Conference," this new branding and renewed enthusiasm will bring into focus the challenges that Boards face in the wake of ever changing compliance .

From Succession Planning to BSA, Audits, Interest Rate Risks, and more, our Officers and Directors Spring Conference will tackle head-on the issues that matter most to Boards like yours. So bring the entire Board this year—we're confident that our conference will be carefully designed to create a more flourishing Board.



The Hyatt Regency, Cincinnati, OH

WSJ Columnist: NFL Deal Raises Questions About Credit Unions' Tax-Exempt Status

ACQUISITION OF SPORTS STADIUM'S NAMING RIGHTS BY CREDIT UNIONS ILLUMINATES NEED FOR FAIR REGULATION.

Article originally appears in ABA Daily Newsbytes | *American Bankers Association*

The acquisition of an NFL stadium's naming rights by a credit union raises the question of why a large tax-exempt institution should have an advantage over its tax-paying competitors, James Freeman, assistant editor for the Wall Street Journal, wrote in a recent column for the newspaper.

Earlier this year, the Washington Commanders announced that the Virginia-based Northwest Federal Credit Union was awarded the naming rights to the team's stadium in Maryland. While details of the deal were not disclosed, the Washington Post cited an anonymous source stating that the agreement was for eight years and exceeds the average annual value of the previous naming rights deal with FedEx, which was roughly $7.5 million a year.

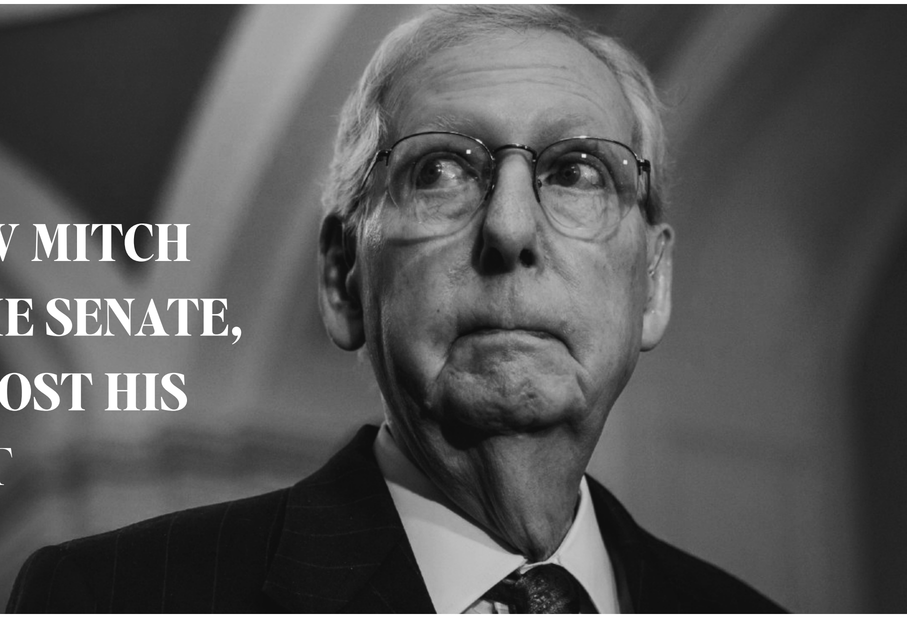
In his column, Freeman didn't doubt Northwest would get its money's worth from the deal. He instead questioned why a large credit union with the resources to enter into such an agreement doesn't pay federal taxes even though many of the smaller, tax-paying banks it competes with "could never afford to buy the naming rights to an NFL stadium."

"Northwest isn't even one of the biggest of the tax-exempt giants," Freeman wrote. "Credit unions have sponsored various sports venues, and also advertise frequently during sports broadcasts."

"As Republicans work next year to prevent further tax increases on companies that actually do pay federal taxes, they should not ignore outfits that have managed to avoid them," he added.

American Bankers Association President and CEO Rob Nichols raised similar questions in a September letter to the editor in the Washington Post about the stadium deal.

"Absent regular congressional oversight, credit unions have expanded far beyond their statutory mission and nonprofit structure at the expense of their member-owners and American taxpayers," Nichols wrote. "The fact that a not-for-profit, tax-exempt credit union just spent more than $7.5 million to stick its name on our local NFL stadium should encourage lawmakers to continue asking tough questions."



REVIEW:
THE PRICE OF POWER: HOW MITCH MCCONNELL MASTERED THE SENATE, CHANGED AMERICA, AND LOST HIS PARTY BY MICHAEL TACKETT

United States Senator Mitch McConnell needs no introduction. First elected to the US Senate in 1984, he is the longest-serving senator from the Commonwealth and the longest-serving leader of either party. After the KBA's Washington, DC visit in November, our final meeting of the week was with Senator McConnell in his leadership office. Standing by the fireplace in room S-230, one can't help but be in awe of the history that has unfolded within this space. It was also historical for those lucky enough to attend this year, as our group is one of the last McConnell hosted as the Leader of his caucus.

Our time with McConnell was short, as Senator John Thune had been elected to succeed McConnell as leader the day before our visit and was due for his own visit later that afternoon. As we departed, McConnell told us about a recently released book about his life and work. He stated quickly that he "is not receiving a dime for the book," yet he would recommend it to anyone who wanted to know more about him. I had actually just finished the book on the plane to DC a few days earlier. Authored by Michael Tackett, The Price of Power: How Mitch McConnell Mastered the Senate, Changed America, and Lost His Party is exactly as McConnell described it: a complete look at the life of one of the most consequential political figures in history. This is not a partisan book, nor is this a partisan review.

Tackett provides a deep dive into the early years of his subject, detailing his diagnosis and struggle with polio and how that shaped his life from a very early age. The reader follows along as McConnell's family relocates from Alabama to Kentucky. McConnell's educational endeavors are described, as is his time serving as an intern for Senator John Sherman Cooper. Other early political adventures are described: working for Senator Marlow Cook, serving as Deputy Attorney General, and finally returning to Kentucky and beginning his ascent in Kentucky politics. Elected as Jefferson County Judge Executive, McConnell immediately set his sights on the US Senate. Once in the Senate, his remarkable rise in leadership is detailed, a rise that offers lessons for all readers.

Some key lessons from The Price of Power that relate to vision, perseverance, and the power of remaining focused on goals:

- McConnell always wanted to be a leader. While others arrive in the Senate and immediately start planning a run for the White House, that was never in McConnell's plan. He had one goal—and stuck to it. From his earliest days in politics, his mantra became, "Never give up, keep on pushing."

- He became leader the same way that he became class president and Jefferson County Judge Executive- through meticulous planning. McConnell is quoted as saying, "Don't let ambition get in the way of judgment...Having a plan, an early plan, and spending a lot of time on it over a long period of time makes a difference." Speaking of the inevitable setbacks that occur, McConnell stated, "Setbacks are not failures and are usually not fatal unless you allow them to defeat you."

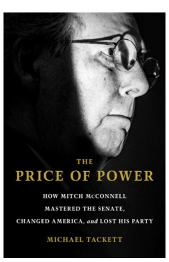
- Always pay attention to details, because small things matter. An example of this is the meticulous planning and attention to detail that McConnell put into his early campaigns, down to having a specific procedure for affixing bumper stickers and adding paperclips to business cards.

- Be intentional in time management. Don't waste time doing the undoable. Work every angle, leaving nothing undone. Don't waste time talking when you don't need to.

- McConnell often quotes former Speaker Sam Rayburn: "No one has a finer command of language than the person who keeps his mouth shut." The communication lessons here are obvious.

- A lesson that all successful people can most likely recognize- McConnell made his mark early in his career by taking on jobs that no one else wanted. A great example is how he took a seat on the Ethics Committee in 1993 when no one else wanted the job.

I will conclude the same way McConnell concluded our meeting; if you want a well-rounded, honest account of one of the most consequential political figures in history, read this book. By the time this is published, Mitch McConnell will have ended his time as the longest-serving party leader in American history. Not bad for the guy who Ronald Reagan mistakenly called Mitch O'Donnell.



Title: The Price of Power: How Mitch McConnell Mastered the Senate, Changed America, and Lost His Party
Author: Michael Tackett

Author: James Ayers
Assistant Vice President
Regional Retail Manager
Kentucky Market
First State Bank

LEXINGTON, KY'S AFFORDABLE HOUSING

GRAND SLAM!

For years, Marquard Field, once home to Transylvania University's Pioneer baseball team, sat quiet after the team moved to a new stadium in 2019. Now, this 12.5-acre plot is poised to become a hub for affordable housing, addressing a growing need in Lexington.

This transformation is largely thanks to the leadership of Central Bank and its CEO, Mr. Luther Deaton, who has been a driving force behind the project. Mr. Deaton spearheaded the creation of a $3 million revolving fund in collaboration with HOPE of the Midwest, Republic Bank, Traditional Bank, Stock Yards Bank, and Community Trust Bank. This fund enables developers to move forward without the burden of interest payments, with repayments ensuring the fund can be reinvested in future housing initiatives. "This isn't just about one field," Deaton explained. "It's about building a sustainable way to meet Lexington's housing needs and strengthening our community for years to come."

HOPE of the Midwest, as manager of the revolving fund, plays an equally critical role in ensuring the project's success. "HOPE's involvement is vital," said Johan Graham of AU Associates. "Their management of the fund gives us the flexibility to make this vision a reality without the typical financial hurdles."

Located in a mixed-income neighborhood along Radcliffe Road, the field's location makes it ideal for integrating affordable housing into the community. Transylvania University played a pivotal role by selling the land at a reduced price of $2.8 million, reflecting its commitment to Lexington's future. "We saw this as a chance to create a space where families can live, grow, and thrive," said Transylvania President Brien Lewis.

The development, set to break ground in summer 2025, will include rental and ownership opportunities for families earning 30-80% of the area's median income. Deed restrictions will ensure long-term affordability, offering a lifeline for families navigating rising housing costs.

As Lexington moves forward, the Radcliffe Road Housing Development exemplifies how partnerships can address critical needs. While Marquard Field's baseball days are over, its legacy as a space for community and opportunity is just beginning.

THE STARTING LINEUP!

Banking Partners:
Central Bank, Traditional Bank, Republic Bank, Community Trust Bank, and Stock Yards Bank have established a $3 million revolving capital fund to support the project.

Housing Developers:
Organizations such as the Urban League of Lexington, AU Associates, Winterwood, Lexington Habitat for Humanity, and the Lexington Housing Authority are leading the charge.

Transylvania University:
By selling the land at a reduced price of $2.8 million, Transylvania enabled this initiative to take root.

Community Partners: Groups like HOPE of the Midwest, Commerce Lexington, Lexington for Everyone, and the Building Industry Association are providing crucial input to align the project with local needs.

> "WE BELIEVE THE MODEL WE'VE CREATED CAN BE REPLICATED IN COMMUNITIES ACROSS THE COUNTRY TO ADDRESS HOUSING NEEDS."
>
> *Luther Deaton*
> *President & CEO*
> *Central Bank & Trust*
> *Lexington, KY*

HOPE OF THE MIDWEST

Building a Brighter Future

With over $530 million in loans funded to date and more than 7,000 affordable units built, HOPE has united bankers and developers to make impactful projects a reality. From historic preservation at Gateway on Broadway to modern family living at Richwood Bend Apartments, HOPE is transforming communities across the region. Learn how you can join this mission to build a brighter future at hopeofthemidwest.com.

(Pictured Left to Right) Tamuna Loladze (HOPE), Tammy Nichols (HOPE), Steve Gallahue (Housing Partnership, Inc.), Billie Wade (HOPE), and Jim Sparks (Central Bank)

Onward & Upward

Have a promotion or branch news you want to see featured? Email us at msimpson@kybanks.com

Central Bank Chairman, President, and CEO **Luther Deaton, Jr.** announces **Dominic LaBarber** joins Central Bank as vice president, retirement plan manager II. Dominic has a successful background as an assistant vice president in retirement financial services and as a relationship manager at a local Third-Party Administrator. His previous roles prepared him for his current responsibilities, which include providing overall direction and administration of the retirement plan area. In addition, he develops new business for the trust department and provides technical knowledge to clients and prospective clients.

Mr. Luther Deaton, Jr. would also like to announce that **Stephen Barton** has joined Central Bank as vice president, commercial insurance manager, and officer. Steve's career in the insurance industry spans over 30 years, with the last 15 years as a senior field manager responsible for the state's commercial insurance operations. His experience has uniquely positioned him to focus on establishing an insurance presence in the Northern Kentucky market.

Mr. Luther Deaton, Jr. would also like to announce the promotion of **Gina Ensminger** to vice president, retail banking officer. Gina has been in banking for 36 years. Her prior experience as a teller and in management allowed her to begin her journey with Central Bank as a retail banking manager in 2006. From there, she advanced to retail banking officer, assistant vice president, and finally to her current role as vice president, retail banking officer. Her responsibilities include branch operations, staffing, lending, deposit and integration, and providing exceptional customer service.

Central Bank Chairman, President, and **CEO Luther Deaton, Jr.** announced **Kirt Caldwell's** promotion to consumer underwriter, officer. Starting as a teller in 2018, Kirt's journey into banking and his Central Bank career is a testament to his dedication. His exceptional performance in roles such as customer service representative and personal banker paved the way for his current position as a consumer lending officer. Kirt's responsibilities include analyzing and making decisions on consumer loans, portfolio mortgage underwriting in a backup capacity, and reviewing and updating loan policies.

Mr. Luther Deaton, Jr. would also like to announce the promotion of **Patricia Chamness** to Retail Banking Officer. Since joining the bank in 2017, Patricia has had many roles including cash vault teller, customer service representative, personal and relationship banker, and floating and retail manager. Her prior expertise supervising, coaching, development, and exceptional customer service prepared her for her promotion to retail banking officer. She is responsible for the administrative, customer service, and supervisory duties of the banking center.

Mr. Luther Deaton, Jr. would also like to announce the promotion of **Laurel Locke** to retail administration analyst officer. Laurel began her career at Central Bank in 2019 including roles as a teller, cash vault teller, retail operations specialist and analyst. Her prior management and customer service experience, combined with bank roles has prepared her for her current role as retail administration analyst officer. Her current responsibilities include sales and strategy analysis, CRM, and sales and incentive program administration. She is also responsible for the market floating pool and the supervision of floating retail managers.

Mr. Luther Deaton, Jr. would also like to announce **Karen Lackey's** promotion to vice president, retail banking officer. Karen's interest in money came from her first high school job at Baskin Robins. She counted the money in her head, meticulously faced all her bills the same way, and kept them straight. Developing her money skills, she joined Central Bank as a teller and has been here for forty years! Her experience prepared her for administrative, customer service, and supervisory roles. Her position also includes increasing loan production, transaction volume, business development, and promoting community development through relationships.

Mr. Luther Deaton, Jr. also announced that **Lucy Weaver** has joined Central Bank as vice president, private banking officer III. Lucy brings to Central Bank an extensive career of over 25 years in commercial and private banking. Her wealth of experience has uniquely prepared her for her current role as vice president in the Private Banking


Dominic LaBarber

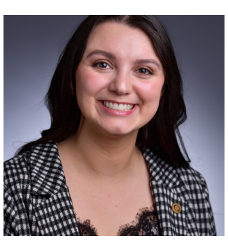

Walt Wells


Stephen Barton


Gina Ensminger


Kirt Caldwell


Patricia Chamness


Laurel Locke


Karen Lackey


Elmer Whitaker


Bank of America Opening


Gina Dover


Dennis Heishman

Month / Year	Date(s)	Program	Location
April 2025	2	*Performing Commercial Evaluations Seminar*	Louisville
	13-15	*Officers & Directors Spring Conference 2025!*	Cincinnati
	15-17	*Consumer and Commercial Loan Documentation*	Louisville
May 2025	5-8	*Consumer Lending School*	Louisville
June 2025	1-6	*General Banking School*	Lexington
	18	*Security Seminar*	Louisville
July 2025	TBD	*Women in Banking 2025*	Louisville
August 2025	12-14	*Fraud Academy 2025*	Louisville
September 2025	15-19	*Commercial Lending School*	Louisville
	21-24	*KBA Annual Convention*	Asheville, NC
	23	*IRA Essentials Seminar*	Louisville

department. She is responsible for coordinating the delivery of a wide range of bank products and services to professionals and business owners, including personal and business loans, residential and commercial mortgage loans, investments, insurance, and cash management.

CG Bank is pleased to announce the appointment of **Walt Wells**, Advisory Board Member of our Richmond Market.
Eastern Kentucky University football head coach Walt Wells is a familiar name. Wells served as an assistant under legendary EKU Head Coach Roy Kidd from 1997 to 2002 and was an assistant again with the Colonels in 2015. Wells was hired as the 15th head coach in program history on Dec. 9, 2019. In his third season at EKU, Wells led the Colonels to their first NCAA FCS Playoff berth since 2014 and a share of the ASUN regular-season championship. Congrats to Coach Wells on his appointment!

Whitaker Bank would like to congratulate their CEO, **Elmer K. Whitaker**, has received the William D. Gorman Humanitarian Award from the Hazard Chamber of Commerce! This prestigious award celebrates his unwavering support and dedication to the people of Hazard and Perry County. Congrats, Elmer!

Bank of America would like to thank everyone who attended the ribbon-cutting ceremony for the opening of its first financial center in Greater Louisville. This milestone marks the beginning of an expanded commitment to serving the financial needs of the Louisville community. Bank of America is proud to now offer four financial center locations in the region, providing a wide range of banking, lending, and investment services. Congratulations from all of us here at the KBA!

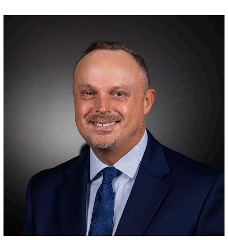
Peoples Exchange Bank has announced that **Gina Dover** has joined the bank's Northern Kentucky branch as a Commercial Portfolio Manager. With almost twenty years of experience in the banking industry, Dover has held positions as an assistant manager, consumer banker and relationship banker, among others.

Louisville Business First is proud to name **Dennis Heishman, CEO, Louisville, Old National Bank**, as one of their 2024 Most Admired CEOs. Congratulations are in order for this well deserved recognition!

City National Bank is pleased to announce the promotion of **Jennifer Keller** as the new Branch Manager of the Mt. Sterling branch. Jennifer has been with City National Bank since 2022, where she excelled as a Personal Banker, building strong relationships and demonstrating exceptional leadership.

City National Bank is also pleased to announce the promotion of **Brian Cook** to Branch Manager of the Lexington Main Office, recognizing his dedication and leadership since joining the bank in 2023 as a personal banker.


Jennifer Keller


Brian Cook


Lucy Weaver

Resolution in Honor
Steve U. Morgan
First & Farmers National Bank
Somerset, Kentucky

WHEREAS, Steve U. Morgan (Steve) retired from First & Farmers National Bank and Albany Bancorp on April 30, 2024 and for 31 years as a banker and community leader has made an incredible difference in the institution he served and a positive influence in the lives of his community and the Lake Cumberland region as a whole; and

WHEREAS, Mr. Morgan followed in the footsteps of his father N.L. Morgan in a career in banking beginning in 1977 with Citizens Bank of Bowling Green (aka Trans Financial Bank), then First Union National Bank (now known as Wells Fargo Bank), Sun Trust Bank of Florida, and eventually back home to Citizens Bank of Albany to work with his father in 1993; and

WHEREAS, Mr. Morgan led what was to become First & Farmers National Bank from a single location bank of approximately $73 million in assets to a multiple location/multiple market bank of over $500 million in assets; and

WHEREAS, Mr. Morgan's devotion to the bank was equaled in his devotion to his community serving as Chairman and director of the Somerset Community College Foundation, Chairman of the Clinton County Kentucky Community Foundation, Chairman of the Clinton County Kentucky Library Board, Treasurer of the Albany First Baptist Church, and providing leadership to the Clinton County Empowerment Zone and the Clinton County Industrial Board.; and

WHEREAS, Mr. Morgan's devotion to his family, community, and this institution should not pass without recognition, now, therefore,

BE IT RESOLVED, the Board of Directors of First & Farmers National Bank wish to express their profound appreciation for Mr. Morgan's 31 years of tireless dedication and service to Albany Bancorp as its President, as well as for his service to First & Farmers National Bank.

BE IT FURTHER RESOLVED, that this resolution shall be entered into the permanent minutes of First & Farmers National Bank, this the 22ND day of August, 2024 and shall further be delivered to Steve U. Morgan, as executed by the directors of the company and a copy be sent and published in the Kentucky Banker, the publication of the Kentucky Bankers Association.

[signature]	Doug Sapp	[signature]
John G. Prather, Jr.	Douglas Sapp, Chairman	Terry A. Pugh
Robert E. Moore, Jr.	Charles L. Key	
Robert E. Moore, Jr.	Charles L. Key	
Ann Martin	William P. Turpen	
Ann Martin	William P. Turpen	

SPOTLIGHT

On New KBA Associate Members

Bridge Business Credit, Troy, MI
Bridge Business Credit, formed in 2002, provides asset-based loans from $500K to $6MM throughout the central and eastern US. They are a non-bank and billionaire owned organization which complement their partner banks.
Contact: Rhett B. Rowe, CEO

Center for Financial Training (CFT), Farmington, CT
Center for Financial Training is dedicated to providing professionally administered education and training that continually meets the needs of employees in the financial services industry. Contact: Emily Laroche, Business Development Mgr.

CRS Data, Knoxville, TN
Taylor made for financial institutions, Financial Suite powered by CRS Data provides complex property details and facts including public tax records, sale and mortgage histories, interactive GIS and plat maps, warranty deeds, and more.
Contact: Tony Ware

EPCOR, Kansas City, MO
As a Non-profit association, the mission of EPCOR is to provide comprehensive education, training, and guidance on payment systems and regulatory compliance.
Contact: Brian Dao, VP Member Engagement

ICEBERG FS, Rockford, MI
At ICEBERG FS, their mission is clear: they work exclusively with community bankers, to help mitigate risk, save money and optimize Core, Debit, Digital, and IT contracts – large or small while saving you time. Their services include: Advisory Services, Product Evaluation, Project Management, and Comprehensive Contract Negotiations.
Contact: Todd Morgan, Founder & Owner

LinkLive, San Francisco, CA
LinkLive is the leading all-in-one, AI-enabled communications and contract center platform, trusted by over 1,100 organizations to improve the effectiveness of their customer-facing teams. LinkLive offers a unified interface for chat, SMS voice, video and secure mail. Meet customers anywhere and improve customer loyalty with LinkLive.
Contact: Kim Beluzo

NOIR Lending CDFI, Inc., Louisville, KY
On November 6, 2024, Noir Lending CDFI Inc. launched in Louisville, Kentucky's only Black Community Development Financial Institution (CDFI) dedicated to empowering Black, Hispanic, and marginalized communities. Their mission is to uplift these communities by providing essential financial resources, specifically through their innovative Credit Builder and Small Dollar Consumer Loans. These offerings are designed to foster financial independence and resilience, enabling individuals and families to build credit, access vital funds, and create pathways to economic stability.
Contact: John Howard Shaw-Woo, Founder/CEO

Van Nevel Consulting, LLC, Louisville, KY
Van Nevel Consulting offers consulting services to community banks, including loan review, strategic planning, board training, and regulatory assistance. Contact: Vince Van Nevel

Zest AI, Burbank, CA
Since 2009, Zest AI has been innovating and perfecting AI lending technology. A US-based technology as a service company, and pioneer in the field serving over $5.5T in assets, Zest AI aims to make best-in-class AI available to FIs to help broaden access to equitable lending.
Contact: Erin Bennett

Want to learn more about KBA Products & Services? Check out our Vendor Viewpoint Podcast, hosted each month by KBA Products & Services Director Selina Parrish! Use the QR code to tune in!

COMPLIANCE ALLIANCE

Kentucky Bankers Association PARTNER

ACCOUNT AGREEMENTS AND COMPLIANCE CONSIDERATIONS FOR BANKS

by **Jefferson Sorley, Jur. M, CRCM** | *Director of Reviews & Products*

Banks provide account agreements to consumers, outlining critical terms and conditions that govern their business interactions. These agreements serve as essential documents that clarify the rights, obligations, and expectations of the banking relationship.

Typically, banks provide two types of agreements: one for bank accounts and another for loans. The details included in these agreements vary depending on the type of account or service. Common categories of information in the agreements include bank and customer liability, deposit and withdrawal rules, check processing, rights to setoff (offset), account information security, and procedures for addressing disputes and errors. Additionally, they serve to ensure that consumers are well-informed about their relationship with the bank, enhancing transparency and fostering a better understanding of each party's responsibilities.

Content Requirements and Disclosures in Agreements

Banks have some flexibility in determining the content of their account agreements; however, state and federal regulations mandate certain disclosures to be provided to consumers at specific stages, such as at application or at account opening. Integrating these disclosures directly into their account agreements helps banks streamline processes and mitigates the risk of regulatory breaches. In addition to regulatory compliance, banks often incorporate legal disclaimers and waivers to minimize liability and clarify any limitations on the bank's obligations to customers.

Ensuring Compliance through Clear Disclosures

Regulatory requirements extend beyond simple disclosure mandates. Banks must also ensure that disclosures are clear, accurate, and not misleading. Ambiguities or inaccuracies can expose banks to litigation and regulatory penalties. Effective disclosures empower consumers by providing them with the knowledge they need to make informed decisions about their banking relationships. Consequently, banks must review their agreements regularly to ensure that the language used remains consistent with current legal standards and consumer protection regulations.

Prohibited Terms and Conditions in Consumer Agreements

While banks have considerable leeway in crafting their agreements, certain terms and conditions are explicitly prohibited by law. In June 2024, the Consumer Financial Protection Bureau (CFPB) released a circular highlighting unlawful and unenforceable terms that banks must avoid. The circular, "Unlawful and Unenforceable Contract Terms and Conditions" (CFPB Circular 2024-03) , outlines a range of prohibited practices that banks need to be aware of.

Prohibited terms and conditions commonly seen in agreements that need to be corrected or clarified include:

1. Prohibited Arbitration Clauses in Mortgage and Credit Agreements

The inclusion of certain terms in contracts for consumer financial products or services may violate the prohibition when applicable federal or state law renders such contractual terms, including those that purport to waive consumer rights, unlawful or unenforceable. The Truth in Lending Act (TILA) prohibits the inclusion in a residential mortgage loan or open-ended consumer credit plan secured by the principal dwelling of terms requiring arbitration or any other nonjudicial procedure as the method for resolving any controversy or settling claims arising out of the transaction. This measure ensures consumers retain the right to pursue legal action in court if necessary. By maintaining consumer access to judicial recourse, TILA reinforces critical consumer protection measures. See 12 CFR 1026.36(h)(1) § 1026.36 Prohibited acts or practices and certain requirements for credit secured by a dwelling. | Consumer Financial Protection Bureau (consumerfinance.gov)

2. Limitations on Servicemembers' Legal Rights

The Military Lending Act (MLA) generally prohibits terms in certain consumer credit contracts that require servicemembers and their dependents to waive the covered borrower's right to legal recourse under any otherwise applicable provision of state or federal law, including any provision of SCRA. See 32 CFR part 232.8(b) eCFR :: 32 CFR 232.8 -- Limitations.

If the Servicemembers Civil Relief Act (SCRA) applies, creditors may not compel arbitration. Additionally, the SCRA was amended to codify the unwaivable right of servicemembers to bring and participate in class actions, "notwithstanding any previous agreement to the contrary." See 50 USC 4042(a) USCODE-2022-title50-chap50-subchapVIII-sec4041.pdf (govinfo.gov)

3. Restrictions on Remittance Transfer Consumer Claims

Under the Electronic Fund Transfers Act (EFTA), remittance transfer providers are barred from limiting a consumer's ability to seek damages or recover costs and attorney fees in disputes. Such limitations are in direct conflict with provisions found in sections 1693m(a)(3) and 1693(l) of the EFTA, which establish liability for providers and ensure that consumers have recourse to adequate remedies. This protection emphasizes the importance of holding remittance providers accountable for errors, delays, or failures that can have significant financial repercussions for consumers. See 15 USC 1693(m)(a)(3) and 1693(l) USCODE-2011-title15-chap41-subchapVI.pdf (govinfo.gov)

4. Disclaimers that Misrepresent Legal Obligations

Contractual disclaimers such as "subject to applicable law" or "except where unenforceable" are insufficient to cure the inclusion of otherwise unlawful terms. The use of these disclaimers can mislead consumers into believing certain actions are permissible under some conditions when, in fact, they are not. Courts, including in Ruth v. Triumph Partnerships (577 F.3d 790, 801-02), have found such phrasing problematic, as it implies a conditional legality that is often legally unsupported. Banks must avoid using disclaimers that create an appearance of legality where none exists.

Regular Compliance Reviews and Legal Counsel Involvement

Given the complex and evolving regulatory landscape, banks are encouraged to conduct compliance reviews of their account agreements at least annually. Legal counsel should play a key role in this review process, as attorneys can provide expertise on current legal standards, identify potential issues with existing disclaimers and waivers, and recommend necessary updates to reflect new legal developments. Banks that proactively monitor agreements ensure terms and conditions uphold consumer protections and minimize legal risks.

CONTRACTS
The Upside of Risk

Kentucky Bankers Association ENDORSED

HOW BANKS CAN ELEVATE THEIR COMPLIANCE MANAGEMENT SYSTEMS

In the banking world, compliance regulations are constantly evolving. To stay compliant, financial institutions must continuously monitor for new guidance, updates to laws and rules, and enforcement actions that indicate a need for updates or changes to their existing processes and procedures.

While not every rule or ruling applies to a specific bank, financial institutions must actively respond and tailor their offerings to comply with existing and upcoming regulations. That's where a compliance management system enters the picture.

A compliance management system, or CMS, should cover all the major and minor aspects of compliance management, from ensuring all team members follow policies and procedures to implementing new regulations. Too often, however, banks and other financial institutions overlook critical elements of an effective CMS, including the three lines of defense.

As you reexamine your bank's CMS, consider these factors and how you can improve it, ensuring you're ready to handle any future challenges and changes.

Why your bank's compliance management system matters

A compliance management system is an interconnected system that helps a bank manage compliance. If the human body represented an institution's operations, the CMS would be the backbone, as it supports the rest of the organization by managing regulatory compliance and integrating risk management across all departments.

While having a CMS is best practice, it's also a regulatory requirement for banks. For example, the Federal Deposit Insurance Corporation (FDIC) provides specific guidelines on an effective CMS, emphasizing that financial institutions are "ultimately responsible for such compliance including the use of third-party providers."

Other regulatory bodies that govern banks, including the Federal Reserve, the Consumer Financial Protection Bureau (CFPB), and the Office of the Comptroller of the Currency (OCC), have released guidance on compliance management systems.

The critical components of a strong CMS

While every financial institution's CMS will look different based on its size, resources, geographic location, existing risk, strategy, and other factors, there are a few categories regulators agree are essential in a compliance management system:

- **Board of directors and management oversight.** Compliance starts at the top. Board members are responsible for ensuring bank staff develop and implement a CMS that is compliant with federal and state consumer protection laws and regulations. The board should communicate expectations and well-defined policies and ensure the compliance team is properly staffed.

- **Documented compliance program.** This formal, written program must include policies and procedures, training, monitoring, and a process for responding to consumer complaints.

The goal of the CMS is to help financial institutions better understand their compliance obligations, ensure their employees are informed and trained appropriately, integrate requirements into business processes, review operations for compliance risks, and implement corrective actions as needed.

How to Maximize Your Lines of Defense for Compliance

Compliance is a team sport, so simply relying on your compliance officer or department to take care of everything is a mistake. You need the buy-in of your entire organization.

While you may be familiar with the Three Lines of Defense, the Three Lines Model offers a more updated take on leveraging everyone within an organization to tackle governance, collaboration, and risk management.

The "three lines" include:

• **First line.** This line includes operational management and employees creating and selling products and services, including sales and customer service roles. These employees are responsible for understanding their roles, implementing internal controls, and addressing risks associated with their work and customer interactions.

• **Second line.** The compliance and risk-related functions make up the second line. These team members oversee and guide the first line, ensuring that policies and procedures are effective and compliant. They also facilitate communication between the first and third lines.

• **Third line.** This line includes the internal and external auditors who independently evaluate an institution's compliance risks and controls. They communicate information to the second line and report to the board and senior management team.

While the lines serve different functions, they must work together to address compliance risk cohesively. If two lines are strong but the other is weak, that could jeopardize the entire CMS.

Tips for building a comprehensive CMS at your bank

So, how can your bank build a stronger compliance management system? Whether you're starting from scratch or reevaluating your current systems, there are some actions every institution can take to elevate their CMS.

• ***Establish clear governance structures.*** The role of the board and senior management in setting a strong culture of compliance can't be overstated. Ensure your leadership team sets the tone from the top by implementing the Three Lines Model and effectively communicating the expectations of all employees.

• ***Develop a robust compliance program.*** A comprehensive and formal compliance program is essential for a successful CMS. This program should be well-documented and include critical components such as detailed policies and procedures, employee training programs, effective monitoring systems, and a structured consumer complaint response mechanism.

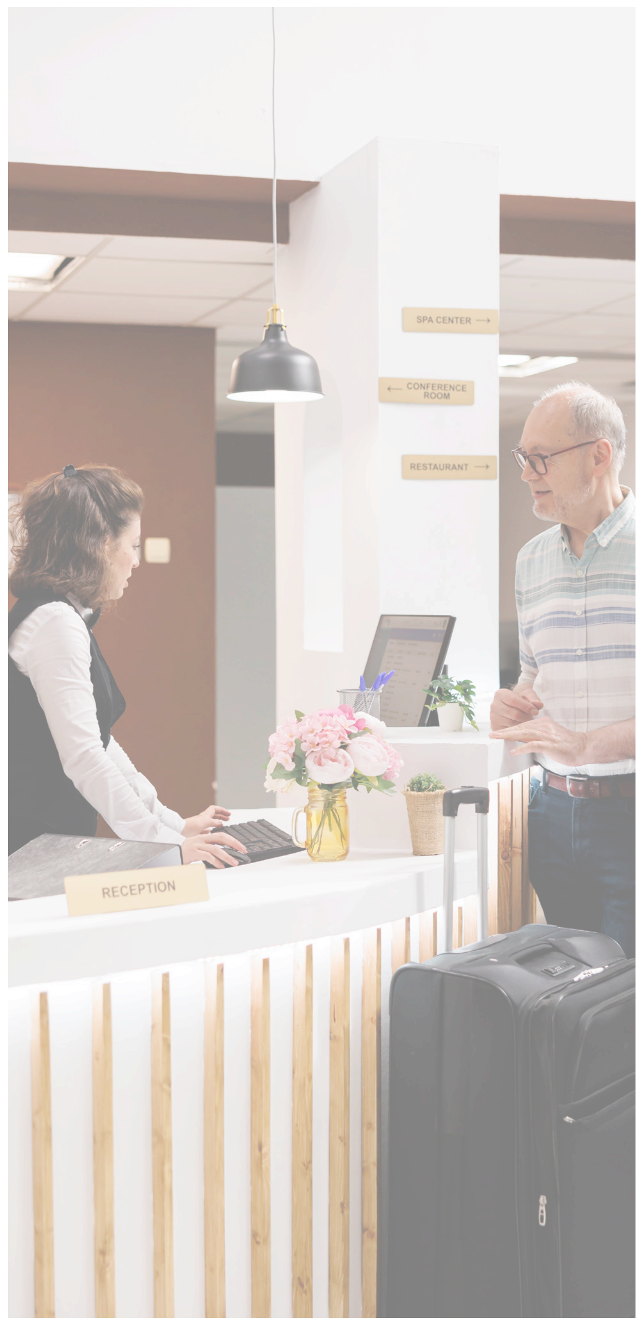
• ***Utilize technology to enhance your compliance efforts.*** The right compliance management software solution can save your bank valuable time, money, and human resources. Look for a solution that will streamline processes, automate monitoring, and facilitate reporting to ensure your institution is meeting compliance requirements efficiently.

• ***Conduct regular risk assessments.*** Proper compliance management is about being proactive, not reactive. Risk assessments should be updated as the regulatory landscape changes to ensure controls function as needed and high-risk areas are addressed effectively.

• ***Collaborate across departments.*** Compliance is everyone's responsibility. Fostering a culture of compliance and open communication across different lines is crucial. Your bank also risks duplicating tasks or overlooking major risk areas if there's a lack of communication.

• ***Test and modify your CMS as needed.*** Establishing a robust CMS is only the first part of your institution's compliance journey. Consistently evaluate its performance against established benchmarks and metrics, and you'll find modifications are necessary to remain effective in a constantly changing environment.

Understanding the crucial components of a successful CMS is only the first step in every financial institution's broader compliance journey. As the regulatory landscape continues to evolve on the federal and state levels, use these insights to implement procedures and processes to ensure your bank is positioned for compliance success now and in the future.



haberfeld
accelerating growth

LEVELING THE PLAYING FIELD

by **Sean Payant** | *Chief Strategy Officer*

In our ever-changing industry, many community bankers fall into the trap of trying to grow market share by following the lead of the "big banks." Many of them are finding it just doesn't work.

Customers continue to flee from banks that focus on regular service charges and complicated products. Ask yourself: "As a consumer, would I think our institution's pricing structure is fair?" As bankers, we need to look through the lens of the customer.

The number one reason consumers switch banks is because of service failures, often in the form of unexplained nuisance charges or fees. Numerous studies published by The Financial Brand consistently show consumers hate monthly service charges, minimum balance requirements, and confusing products and services that come with too many variables and requirements.

In an increasingly competitive marketplace, community bankers need to focus on customer perceptions to leverage their competitive advantages. In any given market, most community financial institutions see the big banks as their biggest competitors. So, let's compare your institution to some of these larger institutions. Since customer perception is reality, we will have to draw some conclusions on what customers are likely to believe.

Locations

For customers choosing a new institution, the biggest factor is still location. The average community bank in the United States has six branches, whereas Wells Fargo currently has more than 4,600 locations in the United States. While some FIs are trimming their footprints, TD recently announced plans to open 150 branches by 2027. Further, in a recent article, Chase defended its branch strategy as a deposit-gathering machine. Given that location or convenience remains a primary reason for selecting a financial institution, community institutions leaning into the branch strategy will have a huge advantage.

Marketing Dollars Available

In 2021, Wells Fargo budgeted $600 million for marketing. The average community bank spends less than $600,000 per year. Spent wisely, that budget can help community banks grow their customer base and double account openings.

Product Offerings

Perception is reality. Suppose you took a random survey of people on the street, asking them, "Which bank offers the most products and services: Bank of America or your bank?" Most people would answer "Bank of America" based on perception. The reality is most community financial institutions offer nearly everything required by the majority of consumers and businesses. That said, community banks cannot and should not try to copy the big banks or their products. Since you don't have the most locations, it is imperative you have a more compelling offer.

Pricing on Deposits

Based on perception, many people may assume that one of the big banks pays the best. In reality, every one of our clients across the United States pays higher rates on deposits than the big banks.

Too Big to Fail

In 2023, the collapse of Silicon Valley Bank and Signature Bank sent the markets into turmoil. Uncertainty causes consumers to pause and question the stability of the banking industry as a whole. Which institution do they think is "too big to fail," Wells Fargo or your community bank?

Customer Service Culture

All things considered, who has the ability to most fully know their customers and serve them and their business needs – Bank of America or your bank? This is an area in which community banks can win hands down; however, community banks rarely make this a priority. Frankly, it has been my experience that most community banks give "lip service" to customer service.

Capitalizing on Your Competitive Advantages

It's clear that big banks have a few distinct competitive advantages and a number of perceived ones. Unlike community banks, they also have a much higher cost structure and are less nimble. Because community banks operate on a very different business model, they can offer more personalized services, lower fees, and more compelling products. Pricing and service still matter. Approximately 10% of consumers change financial institutions in any given market in any given year. It is very difficult to persuade people to switch banks. When they do switch, they do so for a variety of reasons, but it is generally event driven. The goal then is to get people to choose your institution when they are ready to change.

Being top of mind when people are ready to switch is key. Since convenience is the primary selection criterion for customers, you should be focusing your marketing on the proximity of your branches to prospective retail and business customers in your market area. Once you've attracted those customers, you can use service as a differentiator to maximize your share of wallet through added relationships and a strategic approach to cross-selling additional products and services.

Should you follow the big banks' lead and start charging fees? If you start charging for checking accounts, you will ultimately drive good customers away to other banks with more locations and all the other perceived advantages discussed above.

The best way for a community bank to grow fee income and reduce cost of funding is to grow its customer base. Nearly every community bank branch in the United States has excess capacity, meaning they could double their customer bases and still not need to add staff. And, the key to growing customers is to lead with products that are good for customers. Products that are simple and logical, easy to sell and even easier to buy, and—yes—that make money for your bank.

Community banks that follow the lead of the big banks will lose! The big institutions have too many advantages, some real and some perceived. Community bankers need to differentiate by leading instead of following.

Sean C. Payant, Ph.D., is Chief Strategy Officer at Haberfeld, a data-driven consulting firm specializing in core relationships and profitability growth for community-based financial institutions. Sean can be reached at 402.323.3614 or Sean@haberfeld.com

MIDWESTERN SECURITIES
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THE GREAT $68 TRILLION MILLENNIAL TRANSFER

by **Anne Shutt** | *Vice President of Business Development*

According to a recent NASDAQ article, $68 trillion is how much is expected to transfer to Millennials during the Great Wealth Transfer over the next 20 years. We have all heard how important the digital banking experience is for this generation, but what has gotten less attention is how important financial health is to this generation. Considering it is estimated that Millennials will make up 75% of the

Think about this. The oldest Millennials are now in their early 40s. Many struggled to get jobs early in their careers because they were entering the workforce during, and just following, the Great Recession when the unemployment rate was near 10% (according to a National Institute of Health (NIH) article as many as 30 million people lost their jobs during this time). So not only was the economy in a bad place, but more experienced workers had been displaced and were now competing for fewer new jobs, leaving many Millennials to settle for lower-paying jobs. Once they did secure jobs, young workers' earnings were well below what was expected and, according to the NIH, these young workers could have had their earnings suppressed for up to ten years. The NIH also states that this generation of young workers were so greatly impacted by entering the workforce during and directly after the Great Recession, their formative years, that they are more likely to see success linked to luck more than effort, be more supportive of government redistribution and have decreased confidence in public institutions.

"Like everyone in my generation, I am finding it increasingly difficult not to be scared about the future and angry about the past." Michael Hobbes, Huffington Post Millennial Author.

According to The College Board, Millennials have taken on 300% more student debt than their parents. So, they came out of college, bright-eyed and hopeful, but with a 300lb gorilla on their back, only to find that the job future they were sold by college admissions counselors was unlikely to come true. What about home ownership? According to the US Census Bureau, Millennials are half as likely to own a home as those their age in the 1970s. And shockingly, it is estimated that one in five is actually living in poverty. According to Michael Hobbes research, if current trends continue, Millennials won't be able to retire until they are 75 years old, on average.

Financial uncertainty is what keeps many Millennials up at night. They have weathered two crazy decades in the workforce and many are still living paycheck to paycheck. But as the Great Wealth Transfer continues to occur, and this generation starts to be on the receiving end of this transfer, they will be looking for a steady financial hand to help guide them to how best use these funds, and their existing savings, for a more secure future.

This is where banks can really make an impact on this amazing generation who have endured rough seas for so long. This won't happen by just offering an occasional budgeting class (as this generation can budget better than any Baby Boomer, most likely, due to years of making ends meet). Banks that have a strong, future-focused, financial advisor program have the opportunity to connect with this generation in ways that competitors won't be able to. Having financial advisors that can sit down with Millennial customers and really understand their goals and can help reduce their financial uncertainty, can build strong relationships and thus gather assets and deposits. With more and more investment companies offering banking products, if you don't offer full financial planning that will help improve their financial health, they will find it elsewhere and take their deposits with them.

If you do currently have financial advisors serving your customers, it is well worth your time to better understand how they are interacting with your current customers. Too often bank financial advisors focus their efforts on selling high-commission products, such as mutual funds and annuities, or only selling investment portfolios and are not doing true financial planning with customers. The Millennial generation will not be satisfied with this and will expect more from their financial advisor. If they meet with an advisor and are sold a product instead of being provided financial peace of mind that full financial planning can bring, they will leave and take their deposits and investments with them, and will share their negative experience on social media. Buying annuities and mutual funds or individual stocks can be done easily online, and Millennials know how to do this, easily replacing an advisor that only offers this service. Planning for their future and working together to draw up a financial roadmap to guide them towards reaching their long-term goals, and then being their accountability partner along the way, is what truly adds value and will build a lasting relationship.

Too often I hear negative comments about the Millennial generation. When you start to better understand this generation, and the different struggles they have faced, you can appreciate more their contributions to the workforce and what they have accomplished, despite a deck that may have been stacked against them from the start. They will be the majority owners of wealth in this country and if you work now to build better, future-focused bank offerings that help them feel more secure and reduces their uncertainty, you will be the financial partner they choose.

NOIR LENDING CDFI INC.

BRIDGING FINANCIAL GAPS FOR KENTUCKIANS THROUGH CREDIT BUILDING AND EASIER ACCESS TO CAPITAL

by **John Howard Shaw-Woo** | *President & CEO*

Noir Lending CDFI Inc., Kentucky's only Black-led Community Development Financial Institution (CDFI), is dedicated to addressing systemic financial inequities while fostering partnerships with banks to meet Community Reinvestment Act (CRA) goals. By providing underserved populations—including Black and Hispanic communities, immigrants, and college-aged youth—with "Easier Access to Capital," Noir Lending is not just building financial equity but also creating a pathway for banks to deepen their community impact.

The CRA encourages financial institutions to support economic development in low- and moderate-income (LMI) communities, and partnerships with CDFIs like Noir Lending are a powerful way to fulfill these obligations.

Banks collaborating with Noir Lending can demonstrate impactful community investments, improve their CRA evaluations, and expand their relationships within underserved markets.

CDFIs are uniquely positioned to address the financial challenges faced by LMI communities, offering innovative programs and services that enhance community development. Noir Lending's initiatives align perfectly with the CRA's objectives, making it an ideal partner for banks seeking meaningful ways to contribute to economic empowerment.

Noir Lending's Legacy Loan Fund is a groundbreaking initiative that allows partnering banks to establish a dedicated fund supporting underserved individuals.

Here's how it works:

- Banks contribute to their Legacy Loan Fund, which Noir Lending uses to award $500 Credit Builder Loans to individuals in need.

- Loan recipients select the partnering bank to hold their $500 during the loan repayment period.

- Once the loan is repaid, the bank offers recipients an opportunity to deposit their funds into a checking or savings account and access a credit builder secured credit card to continue their financial journey.

This innovative program not only empowers individuals to build credit but also strengthens banks' relationships with potential lifelong customers. It's a win-win approach that addresses community needs while advancing the bank's CRA commitments.

For customers denied loans, Noir Lending offers a pathway to financial readiness through a $99 credit repair and debt-to-income (DTI) improvement course. Partnering banks can refer these customers to Noir Lending, where they receive guidance on improving their financial profiles and increasing their chances of loan approval.

Through tailored education and support, Noir Lending equips individuals with the tools needed to return to their bank in a stronger financial position. This referral partnership enhances customer retention and underscores the bank's role as a community ally in fostering economic mobility.

Noir Lending's $500 Credit Builder Loans are more than just financial products—they are stepping stones to financial independence. These loans help individuals:

• Build or improve credit scores, opening doors to future opportunities.

• Access affordable financing, reducing reliance on predatory lenders.

• Gain financial literacy through associated education programs, fostering long-term stability.

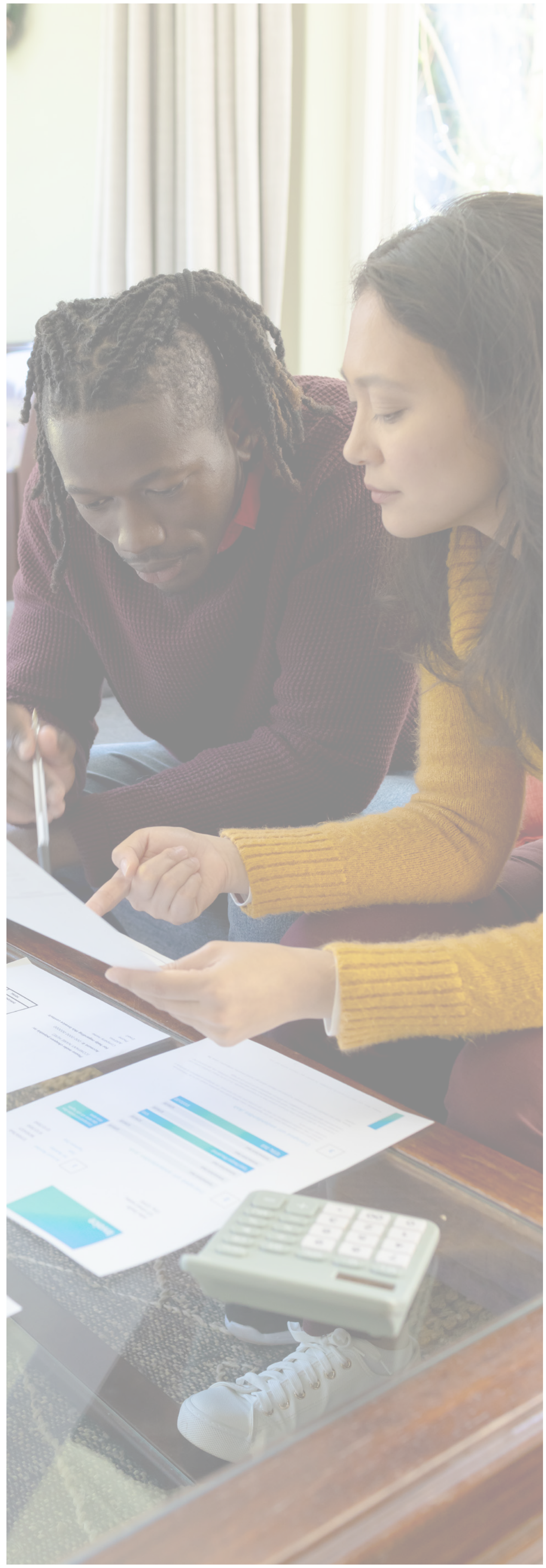
• By addressing systemic barriers to credit, these loans empower individuals to achieve key milestones like homeownership, business investment, and higher education.

"Noir Lending CDFI Inc. is more than a financial institution—it's a movement to build wealth and opportunity for those who have been historically left behind," says John Howard Shaw-Woo, Founder and Interim CEO. "We are proud to lead this initiative and look forward to making a lasting impact on Kentucky's Black and marginalized communities."

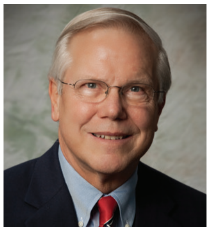
By collaborating with Noir Lending, banks can amplify their role in promoting financial inclusion and economic growth. Programs like the Legacy Loan Fund and customer referral opportunities provide tangible ways to align business goals with community needs. Together, these initiatives bridge financial gaps, foster economic mobility, and leave a lasting legacy of empowerment.

Noir Lending invites banks to join in its mission to create equitable financial opportunities for all. For more information on partnerships, establishing a Legacy Loan Fund, or referring customers, contact Info@NoirLending.org or visit www.NoirLending.org.

This partnership is more than a strategy—it's a commitment to building a stronger, more inclusive financial future.



CHECK FRAUD LIABILITY IN THE DIGITAL AGE:
WHAT BANKS NEED TO KNOW



John McGarvey

McKenna Schrage

Check fraud has increased exponentially, skyrocketing through the alleyways of mail theft and the dark web. The Financial Crimes Enforcement Network ("FinCEN"), reports that it received 15,417 reports related to mail theft check fraud between February and August of 2023, totaling more than $688 million in completed and attempted transactions by fraudsters.

The crooks obtain the checks through theft from the mail and commit the fraud or sell the stolen check on the dark web. The three main methods by which check frauds are perpetrated are: (1) Altering stolen checks prior to deposit, (2) Creating counterfeit checks using the stolen check as a template, and (3) fraudulently indorsing checks.

The most common method of check fraud is alteration of stolen checks. 44% of check fraud involves mail theft of checks that are altered. Alteration differs in sophistication, the least sophisticated being addition of a payee. The more sophisticated, and difficult to detect, involves "washing" the checks with solvents and making the check payable to the fraudster, and frequently increasing the amount of the check.

Counterfeit checks also vary in sophistication. Sometimes the fraudster simply obtains an account number and routing number, either from stealing a check, or purchasing the information on the dark web. The crook creates a check with that information even though the physical appearance of the counterfeit is grossly different from a real check and deposits the check. (Fraud detection software offered by core system providers should detect that type of fraud.) The more sophisticated crook creates an exact replica of a real check down to most of the security features including the use of microprint making it more difficult to detect.

UCC Articles 3 and 4, and Fed. Reg. CC, address how fraud losses are allocated between the depository bank and the drawee bank based on whether the check was altered or counterfeit. The Federal Reserve revised Reg. CC in 2018 to create a presumption of liability for altered and counterfeit checks. For altered checks, the presumption makes the bank of first deposit liable upon the determination of fraud. The presumption of alteration creates a presentment warranty claim in favor of the drawee bank against the bank of first deposit. The rationale is that because of check truncation the depository bank is the only bank that handles the paper item and is best positioned to detect the alteration.

Conversely, Reg. CC and the UCC place the liability on the drawee bank for paying counterfeit or forged checks. The reason is a counterfeit or forged check does not have an authorized drawer's signature. Under UCC law, the drawee bank is responsible for making sure it only pays checks with an authorized drawer's signature and is best positioned to make that determination.

Technology has played a role in the increase in check fraud. Mobile deposits are the fraudsters' favorite means for the deposit of altered and counterfeit checks. FinCen notes the fraudsters want to avoid contact with bank personnel when depositing a fraudulent item and mobile deposit makes that easy. If a depository bank does not review items accepted by mobile deposit, but electronically routes those items for collection, its risk of accepting an altered or counterfeit check increases. Some banks address this by setting limits on the dollar amount of checks accepted for mobile deposit, or route checks of more than a certain amount for human or electronic review.

Community banks are frequently the drawee bank in a check fraud transaction. The depository bank's statutory warranty to the drawee bank is that the item it accepted is not altered and is properly indorsed. If the depository bank will not make good on its presentment warranty, drawee banks can make a warranty claim under KRS 355.3-417(2) and KRS 355.4-208(2). Those statutes provide that a "drawee making payment may recover damages for breach of warranty equal to the amount paid by the drawee." Beginning January 1, 2025, Kentucky banks making presentment warranty claims through the courts will also be able to recover attorneys' fees if litigation is required to collect on the presentment warranty.

Resolution of Respect for Garland Certain

Whereas, it has pleased Almighty God to take unto Himself our beloved Wilbert 'Garland' Certain, the founding CEO of United Community Bank of West Kentucky, who passed from this life on November 22, 2024; and

Whereas, Garland Certain was a visionary leader whose dedication and commitment to the community and the bank's mission were unparalleled; and

Whereas, Garland Certain served the bank and the community with integrity, compassion, and a spirit of excellence for over twenty years; and

Whereas, Garland Certain was a loving and devoted family member, friend, and mentor to many, whose legacy will continue to inspire those who knew him; and

Whereas, the loss of Garland Certain is deeply felt by the board, staff, and customers of United Community Bank of West Kentucky, as well as the broader community;

Therefore, be it resolved that we, the board of directors and staff of United Community Bank of West Kentucky, express our deepest sympathy to the family of Garland Certain and extend our heartfelt condolences during this time of bereavement; and

Be it further resolved that a copy of this resolution be presented to the family of Garland Certain and that a copy be recorded in the official minutes of the bank and shared with the Kentucky Bankers Association as a lasting tribute to his memory.

Respectfully submitted on this 29th day of November 2024, by the Board of Directors of United Community Bank of West Kentucky.

Brucie W. Moore
Chair, Board of Directors

[illegible]
Secretary, Board of Directors

Steven Hendrix
Vice-Chair, Board of Directors

[illegible]
President