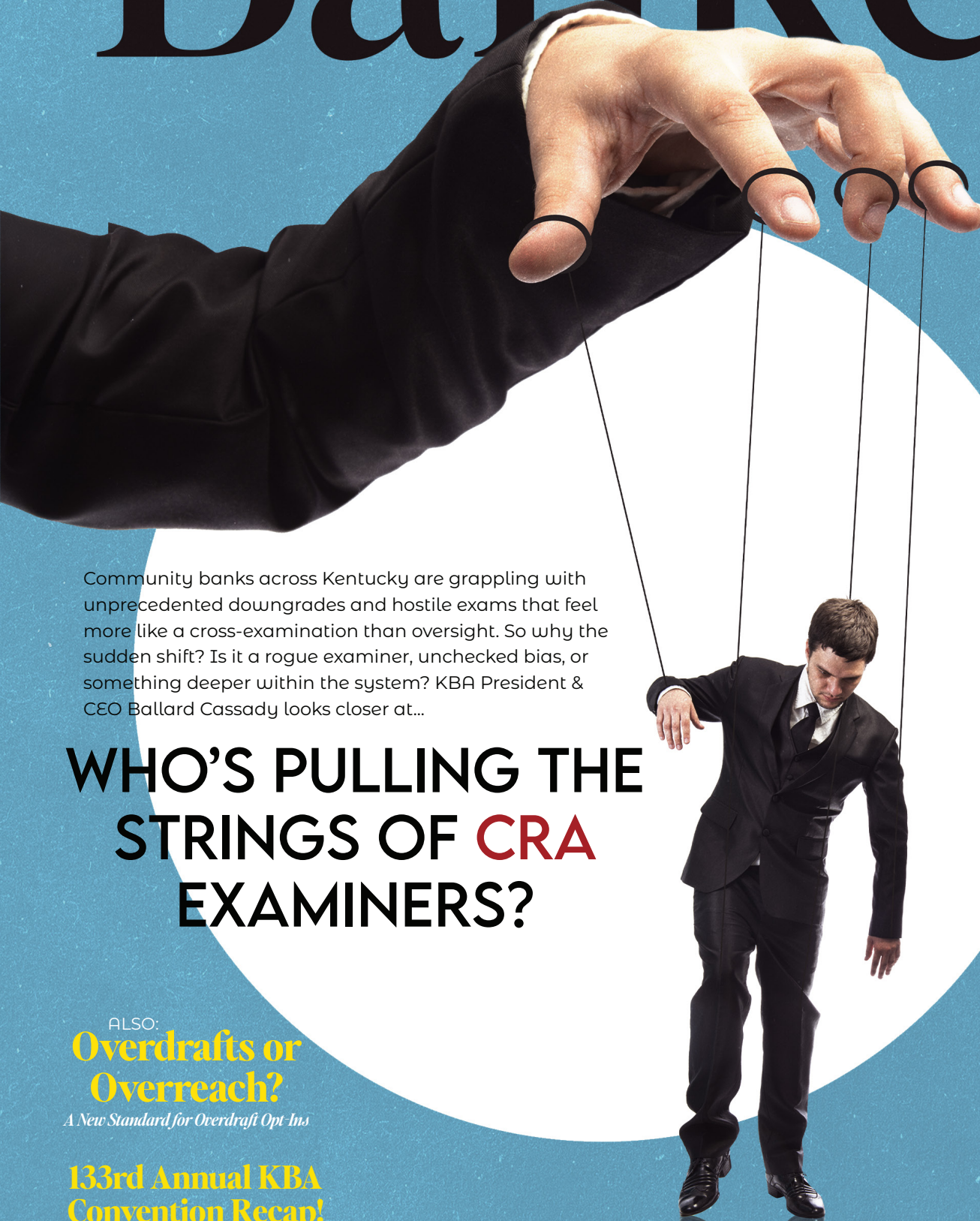


Kentucky Banker

Sept./Oct. 2024



Community banks across Kentucky are grappling with unprecedented downgrades and hostile exams that feel more like a cross-examination than oversight. So why the sudden shift? Is it a rogue examiner, unchecked bias, or something deeper within the system? KBA President & CEO Ballard Cassady looks closer at...

WHO'S PULLING THE STRINGS OF **CRA** EXAMINERS?

ALSO:
**Overdrafts or
Overreach?**

A New Standard for Overdraft Opt-Ins

**133rd Annual KBA
Convention Recap!**

AN OFFICIAL PUBLICATION OF THE
KENTUCKY BANKERS ASSOCIATION.



Correspondent Banking

BY KENTUCKY BANKERS, FOR KENTUCKY BANKERS.



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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

KENTUCKY BANKERS ASSOCIATION

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Bureaucrats Continue to Ignore the Importance of Relationships.

by April Perry | KBA Chairman, 2024

We all have pivotal moments that change the course of our lives. The first one I remember was when I was 15 years old. My Papaw called and asked me to go to work with him at the bank! Asking me to go to work with him wasn't unusual as I had been joining him on Sunday afternoons at the bank from the time I was two! While he sat in his office, I played in the drive-thru. The microphone allowed me to pretend to be big and strong while the window protected my introverted personality! It was the perfect job!

But this time was different. He called on a Friday to ask me to join him on Saturday while the bank was open! I would sit outside his office from 9 to 12, directing customers and answering the phone with no protection from the drive-thru window!

I hardly slept a wink that night. Saturday morning was both exciting and nerve-racking until I sat in my seat with nothing to do! The switchboard was handling the calls, and the customers didn't need directing as they, too, grew up coming to the bank.

I asked Papaw for something to do, and a few minutes later, he returned with a stack of cards representing past-due loan customers, a pad of paper, and envelopes. He told me to write friendly notes reminding customers of their missed payment. I did as he said but also invited them to call if they needed to discuss their financial situation. Later that week, the calls started coming in, but I was in school. Papaw asked me to return next Saturday to take calls and write letters. And just like that, my job as the first collection clerk was sealed!

That experience fired my passion for financial literacy. Talking to people, I discovered that we all experience tough times, and many of us are unprepared to face the financial hardships that inevitably come our way. Too many don't grow up hearing about

money, budgeting, or saving. Lack of financial education leads to poor financial decisions that can be quite costly.

As community bankers, we care about our community's financial well-being. We serve on chamber boards, finance and support small businesses, teach the youth about money, and counsel our customers when they come to us with financial needs. When times get tough, the community banker is there to lend a helping hand. Why? Because banking is a relationship! A relationship that spans generations and lasts through challenging times and prosperity.

Apparently, the Consumer Financial Protection Bureau doesn't understand the relationship aspect of banking. With the implementation of Section 1033 of the Consumer Financial Protection Act, banking is reduced to a mere transaction, devoid of the relationship that Kentucky's bankers have with their clients.

As banks, we care for our clients and are held to the highest standards for protecting their financial information. With the implementation of 1033, the "third parties" that will have access to this confidential information are not held to those same standards. This makes it more likely that personal financial information could fall into the hands of fraudsters. Anyone can fall for a good scheme. However, the less educated one is, the more likely they are to fall victim to fraud, especially when the fraudster has information that makes them seem legitimate.

Part of me would like to go back to Sundays in the drive-thru, but I don't see that happening. I guess there's never been a better time than now to invest in the financial literacy of our Commonwealth and fight the CFPB's overreaching! Thank goodness for the KBA, The Bank Policy Institute, and Forcht Bank for their dedication to protecting our industry and the financial safety of our Commonwealth!



CRA, OR COMMUNITY REINVESTMENT ABUSE?

What is the one thing that keeps banks from serving their communities to the best of their abilities? When it comes to federal regulations, there are a lot of contenders. But right now, the Community Reinvestment Act (CRA) is in the lead by a country mile. I'm reminded of the Japanese word, *lingchi*, or Death by a Thousand Cuts. Is the CRA really Community Reinvestment Abuse?

by Ballard Cassady | KBA President & CEO

Banks report that examiners have begun to walk in and – before even starting an exam – state that the bank will have “problems” with the CRA matrix. By the time they’re finished, the bank realizes that it was like saying the Titanic had a “problem” with an iceberg. The examiners have apparently been instructed to focus narrowly on numbers, like the 50/50 rules, resulting in unprecedented amount of downgrades.

Yet these banks all had satisfactory results in their last CRA exam. Not a single word has changed in the CRA regulations. None of the banks have moved towns. The CEOs are, for the most part, unchanged. And they all continue to work like “rented mules” to serve their communities. So what has changed? In most exams, it’s a single thing: the Examiner In Charge.

Drill down on the individual fact scenarios any way you want, but you come to the same conclusion: either there was something wrong with the last EIC, or there’s something wrong with this one. I’m told by people in the know (with no reason to lie) that the previous EIC, now retired, was

considered one of the best in the country. If so, that suggests the new one may be either incompetent, biased, ambitious, or some combination thereof. Under this “new regime,” Kentucky has many areas where a bank could make every loan applied for in its community but still fail to be “satisfactory.” That’s so absurd that some kind of explanation is needed.

I can’t help but see this issue in a larger context. The context of an ideologically driven hostility toward banks which has accelerated regulatory overreach in recent years. Are new examiners justified in thinking it’s good for their careers to “collect scalps” in the form of CRA downgrades?

Here’s what is so egregious about this situation as to spur that kind of speculation. The joint regulatory arms, something called the Federal Financial Institutions Examinations Council (FFIEC), puts out an annual report on the conditions of every county in the United States. The purpose is to show “distressed or underserved nonmetropolitan middle-income geographies where revitalization or stabilization activities are eligible to receive CRA consideration. The designations reflect local economic conditions, including unemployment, poverty, and

population changes.”

At least one EIC here in Kentucky deliberately ignores that report, apparently with no professional consequences. Instead, even after raising these concerns with the FDIC, our banks are getting claptrap like, “All you have to do is tell us your story, and we can take that into consideration.”

Our banks have been “telling their stories” and getting no consideration whatsoever. Bottom line: when an FDIC team walks in and makes statements like, ‘You’re going to be downgraded,’ before the examination even begins, it’s hard not to question the true purpose of such oversight. Is this kind of examination implemented to serve the banks and the communities they love? Or is this a case of clueless trainees and ruthless ladder climbers who know little about banking and even less about the demographics of a region and have no apparent interest in overcoming any of those obvious deficits?

Are new examiners justified in thinking it’s good for their careers to “collect scalps” in the form of CRA downgrades?

Yes, I’m as angry as I sound, and that anger is justified by any standard with a modicum of fairness. I’ve seen a small Kentucky bank succumb to this kind of *lingchi* firsthand. This particular bank has a heroic record of commitment to sustaining every aspect of its struggling community. *A record that I’d suggest could not be surpassed anywhere in this country, in fact.* And guess what? They just got downgraded for the first time ever. As a result, its small staff was forced to answer a post-exam questionnaire that took 400 man-hours to complete.

That’s 400 man-hours that could have been spent serving customers. 400 man-hours that could have been invested into their community. 400 man-hours absolutely squandered. Simply because a new regulator has no concept of what genuine community reinvestment looks like.

The KBA continues to report these abuses to our region’s main office, but they seem to go largely ignored. I have my suspicions as to why. Sitting at the top of the FDIC for the last decade is a man named Martin Gruenberg. Gruenberg’s leadership got a damning review by an independent investigation ordered by Congress. Sexual harassment and discrimination were found to have run rampant, plus stuff so sickening I won’t even try to describe it. Biden has left him in place pending confirmation of a replacement.

So our reports to FDIC regional offices regarding these EIC abuses end up where the buck stops: with Martin Gruenberg, a glaring example of top-down bureaucratic corruption. Having shown himself to be indifferent to the widespread horrific practices going on all around him, I have no hope that he’ll care much about his examiners victimizing community banks.

By the time this is published, the 2024 election will have occurred. We might even know who won, and we’ll be set for another four years of learning just how much elections matter. Maybe there’s an end in sight to the rampant abuse of our industry, starting -- I hope -- with a thorough housecleaning at the FDIC.



The Federal Deposit Insurance Corporation (FDIC) released the report from the independent third-party review of allegations of sexual harassment and other interpersonal misconduct at the FDIC and management’s response to that harassment and misconduct, and the independent third-party assessment of the FDIC’s workplace culture. Scan the QR code to view that report.

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“For-Profit” representatives from State Banking Associations across the country gathered last month in Louisville, KY for the SBA For-Profit Forum. The KBA would like to thank everyone who made it out to the Bluegrass, with a special thanks to our forum sponsors and to Callan Stapleton, Illinois Bankers Association and Rod Lasley, Indiana Bankers Association, for co-hosting the event in Louisville!

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Overdrafts or Overreach?

The New Standard for Overdraft Opt-Ins

by **Tim Schenk** | KBA General Counsel

On September 17, 2024, the Consumer Financial Protection Bureau issued its Circular on “Improper Overdraft Opt-In Practices.” The question presented in the Circular: “Can a financial institution violate the law if there is no proof that it has obtained consumers’ affirmative consent before levying overdraft fees for ATM and one-time debit card transactions?”

The answer to the question presented: “Yes. A bank or credit union can be in violation of the Electronic Fund Transfer Act (EFTA) and Regulation E if there is no proof that it obtained affirmative consent to enrollment in covered overdraft services. The form of the records that demonstrate consumer consent to enrollment may vary according to the channel through which the consumer opts into covered overdraft services.”

“Regulation E’s overdraft provisions establish an opt-in regime, not an opt-out regime, where the default condition is that consumers are not enrolled in covered overdraft services. Financial institutions are prohibited from charging fees for such services until consumers affirmatively consent to enrollment. Violations of 12 CFR 1005.17(b)(1) can be proven in part by showing evidence that a consumer was charged an overdraft fee on a covered transaction where the available evidence does not adequately validate that the consumer opted in.”

“Consistent with this opt-in design, when determining compliance with Regulation E’s opt-in provisions, regulators and enforcers should inspect the financial institutions’ records to determine whether there is evidence of affirmative consent to enrollment in covered overdraft services.”

Reading the Circular reminds me of my first year of law school. In those days, it was “the best evidence rule” rather than banking... but here we are talking about overdrafts again.

The Circular then confirms the acceptable form of records (evidence, in other words) to “demonstrate consumer consent.”

Approved examples include:

For consumers who opt into covered overdraft services in person or by postal mail, a copy of a form signed or initialed by the consumer indicating the consumer’s affirmative consent to opting into covered overdraft services would constitute evidence of consumer consent to enrollment.

For consumers who opt into covered overdraft services over the phone, a phone call recording in which the consumer elected to opt into covered overdraft services would constitute evidence of consumer consent to enrollment.

For consumers who opt into covered overdraft services online or through a mobile app, a securely stored and unalterable “electronic signature” as defined in the E-Sign Act (15 USC 7006(5)) conclusively demonstrating the specific consumer’s action to opt in affirmatively and the date that the consumer opted in would constitute evidence of consumer consent to enrollment.

In short, you are now in law school and must ensure you have the “best evidence” to prove your customer agreed to overdraft. I always thought bankers were in the business of finance and serving their communities. Apparently, they should also be able to take to the courts and prove “beyond a reasonable doubt” that your consumer opted-in to overdraft protection. I’ve heard of having to wear many hats in business, but this is ridiculous.

Before further addressing the details of the Circular, I think it’s important to remember that at its core, overdraft is a service viewed positively by consumers. More importantly, it is a service that consumers rely on.

A recent American Bankers Association poll conducted by Morning Consult (unlike the CFPB, who models theirs solely on consumer complaints) showed:

Seven in 10 consumers (69%) find their bank’s overdraft protection valuable, compared with only 13% who do not.

Eight in 10 consumers (80%) who have paid an overdraft fee in the past year were glad their bank covered their overdraft rather than returning or declining payment.

Sixty-five percent of consumers think it’s reasonable for banks to charge a fee for an overdraft, as opposed to only 23% who think it’s unreasonable.

The vast majority of consumers (88%) said it is easy for them to check their account balance so that they can avoid overdrawing their account.

Seven in 10 respondents (68%) know that customers can opt out of receiving overdraft protection at any time after they’ve accepted the service, compared with only 5% who incorrectly believe that customers are required to stay in the program once they accept the service.

Of those respondents who are currently enrolled in overdraft protection, 8 in 10 consumers (81%) have never seriously considered stopping or getting out of the service.

A strong majority (69%), said they prefer that their bank offer overdraft protection as an option to customers whether there is a fee or not, as opposed to only 11% who prefer that their bank not offer overdraft protection at all.

Statistics prove that the overwhelming majority of consumers appreciate their overdraft protection. They use it, need it, and don’t want it to go away. The CFPB’s continuing attack on overdrafts defies any legal or logical argument. It means more

work for the bankers, more confusion for the customers, and more ways for overreaching regulators to meddle in the business we know better than anyone - banking!

The truth is that banks want their customers to understand how overdraft protection works. Every bank is happy to help their customers understand this process and disclose all the terms. As noted above, it is a service, not a problem. The problem is the new rule!

The Circular says one form of approved evidence of consent will be via video or audio recording. I am certainly not an expert in every state’s laws, but some states require dual consent to record a phone conversation (yet another legal issue of what constitutes consent, but that’s a second-year law school class). While customers might be used to that kind of thing for services like paying bills over the phone, Cable & Internet providers, or water bills, it’s just one more step for a banker who simply wants to help their customer and build that relationship.

So now that you’ve captured your audio or video recording, where do you put it? Is your bank prepared to purchase the bandwidth needed to store this kind of information? My phone charges \$10 every time I run out of space for additional cloud storage. What will your cost be, and how can you pay for it? According to the CFPB, all fees are bad, right? So don’t think about tacking on an extra “service charge.” Where is the money going to come from? The CFPB can whip up a “study” that shows a minimal cost to the institution, but we all know it is another absorption for the bank’s bottom line.

Let’s look at the other opt-in method proposed by the CFPB. A signed consent form. It seems standard enough at first, but with a closer look, consider the impedance to how you do business. Will customers be confused about why they must sign a new agreement when they visit the bank to withdraw cash? More importantly, how are you going to get every customer into the bank? What about more seasoned customers who have travel limitations? What about more rural customers with limited internet access who rarely visit the bank?

Presumably, if banks are unable to secure their customers’ expressed opt-in, that customer’s overdraft protection will be turned off. What happens when their electric bill bounces in the winter and the customer blames the bank? Are you ready to face that conversation? It sounds to me that bankers may now have to sign up for the additional first-year law classes of torts and contracts.

The bottom line with this and nearly everything coming out of the CFPB is that bankers are forced to do everything but banking. Their time, effort, and resources can no longer be focused on serving their communities because they have to spend nearly all of their energy complying with new regulations that do not benefit their customers. Enough is enough!

Overdraft protection is a service that consumers rely on and clearly appreciate. What if the weight of regulation becomes too much, forcing banks like yours to simply discontinue the service altogether? Perhaps consumers will have a claim against the very Bureau that is supposed to be protecting them. Maybe the CFPB will enroll its enormous staff in torts.

REVIEW:

COACH WOODEN: THE 7 PRINCIPLES THAT SHAPED HIS LIFE AND WILL CHANGE YOURS, BY PAT WILLIAMS.



Basketball season is upon us! In addition to rooting for our team (is there more than one in Kentucky?), many bankers serve as coaches in their communities. Each of them could attest that serving in that position allows them to have a direct impact on the lives of their players. One of the most famous coaches in college basketball history is UCLA coach John Wooden. Volumes have been written about Wooden. For this month's review, I discuss *Coach Wooden: The 7 Principles That Shaped His Life and Will Change Yours* by Pat Williams.

Super Bowl winning coach Tony Dungy writes in the forward to the book that Wooden "...didn't just coach teamwork and preparation and strategy. He coached character and attitude and ideals." Those latter three are the focus of this book. Wooden's life was guided by 7 principles that he used daily, both on and off the court, to instill character, attitude, and ideals in others. The 7 principles are not original to Coach Wooden. His father, Joshua Hugh Wooden, formulated these 7 life principles and worked hard to instill them into his son. Based on the legacy Coach Wooden left, it is apparent that his father succeeded. This book is broken down into chapters that discuss each principle in detail, principles that Wooden's father gave him on a piece of paper when he was 18 years old.

Be True to Yourself

Simply put, have integrity. Faithfulness to others begins with faithfulness to yourself. Wooden stressed to his players to be brutally honest with themselves, telling them they were done the moment they fooled themselves. He felt strongly that you discipline yourself so that others don't have to. Success is a state of mind, the first step to being true to yourself.

Help Others

Wooden lived by the idea that it was impossible to have a perfect day without helping others without the thought of getting something in return. His focus was always on helping people who could not pay him back, helping others as an end to itself, not as a means to an end.

Make Each Day Your Masterpiece

You can never make up for a lost day; each day must count. Instead of waiting to work twice as hard tomorrow, work twice as hard today. Wooden was a master at preparation, believing that being well-prepared with a detailed plan would make each day a masterpiece. One of the powerful takeaways from this chapter is that it's perfectly fine to tell people no when they intrude on your time, and you don't owe anyone an apology for saying no. If you don't plan your time, someone else will plan it for you.

Drink From Good Books, Especially the Bible

The author describes being in Wooden's home and being in awe of the number of books lining the walls. The diversity of Wooden's interests also struck the author, with titles on history, poetry, and literature lining the walls. Wooden lived by the Twain quote, "The man who does not read good books has no advantage over the man who can't read them." It was reported that Wooden began and ended each day with a reading from the bible.

Make Friendship a Fine Art

Building friendship requires discipline and sacrifice. One builds equity in friends over time. One must be open-minded and show that they care. Wooden believed that one needed to

tell their friends how they feel about them, not save eulogies for funerals. Tomorrow may be too late. Whatever needs to be said, say it today.

Build a Shelter Against a Rainy Day by the Life You Live

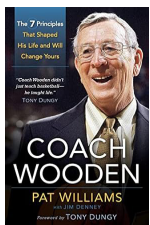
At first, this may sound like financial advice, but the shelter referred to is one of values and character. Wooden stated that arrogance and vanity are off-putting and unpleasant to be around. True humility is one of the best qualities that a human being can possess. Wooden would often sweep the court alone before the players arrived for practice, with no one watching. Staying humble goes a long way to building a shelter of character.

Pray for Guidance and Counsel, and give Thanks For Your Blessings Each Day

Wooden was baptized as a junior in high school. While his religious convictions guided his life, there is much to be learned here for the religious and non-religious alike. Wooden believed that gratitude was the key to happiness. He instilled in others the habits of using praise to build others up, saying thank you often, and keeping a gratitude journal.

Longtime University of Louisville Men's Basketball Coach Denny Crum, once an assistant to Wooden, stated that he had witnessed, on numerous occasions, Wooden pull out the slip of paper that his father had given him with these 7 principles. It is reported that Wooden carried it in his wallet his entire life.

As community bankers, we serve our communities in numerous capacities—chairing local boards, coaching sports teams, volunteering with service organizations, the list could go on and on. We never know who is watching and being influenced by the example we provide. Living each day guided by Wooden's 7 principles is a great way to provide the example that our communities and this country desperately need.



Title: Coach Wooden: The 7 Principles That Shaped His Life and Will Change Yours
Author: Pat Williams
Publisher: Revell



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





MOVING MOUNTAINS

Over 380 bankers, exhibitors, and their families gathered in the majestic hills of Hot Springs, Virginia, for the 133rd Annual KBA Convention. The roads were winding, wet with rain, often beautiful, and occasionally off the radar of Google Maps. Despite these auspicious beginnings, all those in attendance echoed the same sentiment: that this was the best KBA Convention yet. We couldn't agree more.

Upon arrival at the famed Omni Homestead Resort, bankers were greeted with a beautifully woven KBA blanket, their registration packets, and instructions to network, reconnect with old friends, and, most importantly, get ready for a weekend focused on the topics that matter to bankers most. To that end, featured speakers like Dr. Lindsey Piegza (Stifel), Joe Sullivan (Market Insights), and more brought their "A-game," leaving bankers highly motivated with new insights to take back to their branches.



Dr. Lindsey Piegza (Stifel)



Bankers gathered outside the Omni Homestead Resort for a beautiful reception with live music, passed hors d'oeuvres, and beverages. Guests were encouraged to sign up for adventures like fly fishing, hiking, and falconry while at the Convention.





Special appearances were the talk of the convention, and this year's attendees were treated to some of the best keynote speakers we have had the pleasure of hosting. In particular, the KBA wishes to thank Congressman Andy Barr for joining us via Zoom. A friend of bankers everywhere, Barr continues to fight in Washington against overreaching bureaucrats whenever the need arises.

A heartfelt note of appreciation goes to Governor Michelle Bowman, Federal Reserve, who joined us for the first time at the Homestead. Governor Bowman was a favorite at the convention, with bankers praising her insight and perspective of federal matters that affect all of us, from D.C. down to Main Street. We look forward to continuing to grow this relationship with Governor Bowman and expect to see her very soon as we navigate through 2025 and all the changes that might come from an election year.





A big part of the fun of our Annual Convention is the golf scramble. Bankers get a chance to network with vendors and their colleagues in a (mostly) fun day on the greens.





Mr. John T. McGarvey, Esq. & Nathan Gonzales (Inside Elections)



MLB Star, Jim Abbott



Patrick Dix (SHAZAM)

The ABA was also well represented by featured keynote speaker, ABA President & CEO Rob Nichols! Mr. Nichols joined us on the stage to reconnect with Kentucky Bankers, showcasing how members can best utilize their ABA membership to strengthen their branches, enhance their customer relationships, and better secure the future of the banking industry. We celebrate the opportunity to work with Mr. Nichols closer as our friendship continues to grow in 2025.

Future MLB Hall of Fame NY Yankees pitcher Jim Abbott gave a heartfelt, life affirming speech about unlocking hidden potential, and it's safe to say, there wasn't a dry eye in the room. The KBA would like to personally thank Mr. Abbott for joining us and sharing his beautiful story about how the imperfect, and improbable among us, can reach heights unimaginable.

We could go on and on about all the esteemed speakers this year. We would like to extend a heartfelt thanks to Patrick Dix (SHAZAM), Nathan Gonzales (Inside Elections), our long-standing convention moderator, Mr. John T. McGarvey, Esq. (Morgan Pottinger McGarvey), Joe Sullivan (Market Insights), and KBA Chairman Mark D. Strother (The Commercial Bank of Grayson) for sharing their insights and expertise with us. We also would like to thank all of our sponsors and exhibitors for making this event possible. Your commitment to serving the bankers of Kentucky does not go unnoticed, and for that, you will always be a friend of the KBA.

To wrap up an amazing convention, April Perry, Chairman & CEO of Kentucky Farmers Bank, was presented the Chairman's Gavel and Pin by current KBA Chairman, Mark Strother. Having April's family in attendance made this moment extra special. We celebrate Mark's outstanding leadership with the KBA and thank him for the immense impact he's made here with all of us. April has taken over as Chairman at the conclusion of our KBA Annual Convention, a choice which comes with the greatest support from all of us here at the KBA.



Michelle Bowman (Federal Reserve System)



April Perry (Kentucky Farmers Bank) receives her pin and gavel as new Chairman of the Board, KBA, from Mark Strother (Commercial Bank of Grayson, previous KBA Chairman of the Board).



133RD ANNUAL KBA CONVENTION

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FOR MAKING THIS CONVENTION POSSIBLE!

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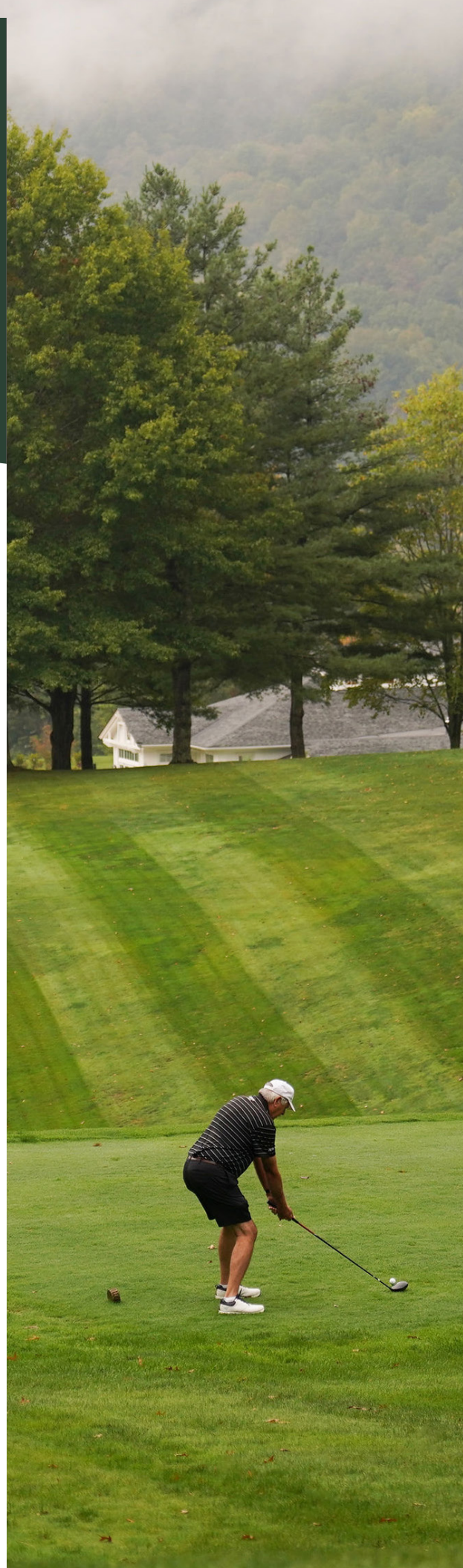
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With over \$530 million in loans funded to date and more than 7,000 affordable units built, HOPE has united bankers and developers to make impactful projects a reality. From historic preservation at Gateway on Broadway to modern family living at Richwood 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)

Gateway on Broadway

What happens when history meets hope? In West Louisville, a once-vacant relic is transforming into something big. Originally built in 1921 as a candy factory, the building at Broadway and 18th Street has seen its fair share of change. Now, thanks to the Housing Partnership, Inc. (HPI), it's getting a fresh start as Gateway on Broadway—a vibrant senior living community and nonprofit hub.

What You Need to Know:

116 Affordable Senior Apartments: There will be 112 one-bedroom and 4 two-bedroom units, offering future residents a comfortable, low-cost living option. 50 units will have rent levels targeted at residents earning 30% or less of the area median income (AMI), while 66 units will offer rents at the 50% AMI level.

Restoring History: The building sat empty for decades but is now undergoing a top-to-bottom transformation that will cost over \$47 million in total, once complete.

Spring 2025 Move-In: Construction started in July 2023 and is well on track, with windows installed and interiors underway.



Gateway on Broadway received Low Income Housing Tax Credits, as well as historic tax credits, which are bringing in about \$28 million in equity investment from PNC Bank. HOPE of the Midwest ("HOPE") is providing nearly \$31 million in construction financing, comprised of a \$25 million tax-exempt bond loan and a \$5.75 million bridge loan. HOPE is also the permanent lender, providing an \$8.8 million permanent loans.

Eleven member banks of the HOPE consortium are participating in the construction and permanent loans:

Central Bank	German American Bank
Commercial Bank of West Liberty	Hyden Citizens Bank
Farmers & Traders Bank	Limestone Bank
Farmers State Bank	Republic Bank
Field & Main Bank	Wilson & Muir Bank
First Financial Bank	

Richwood Bend Apartments

There's a new place to call home in southeast Lexington! Richwood Bend Apartments is redefining affordable housing with 83 garden-style units designed for families of all sizes. From cozy one-bedroom layouts to spacious three-bedroom homes, these apartments come with all the modern touches—washer/dryer hookups, energy-efficient appliances, and patio/balconies.

What You Need to Know:

83 Units at Affordable Rents: Four buildings with a mix of one-, two-, and three-bedroom apartments for families earning incomes at or below 60% of the area median income.

Public-Private Financing: Made possible by Low Income Housing Tax Credits and issuance of tax-exempt bonds by the Kentucky Housing Corporation, as well as \$5.6MM from Lexington's Affordable Housing Fund and HOME Program. The tax credits are bringing in over \$8MM in equity investment from the Ohio Capital Corporation for Housing.

Construction Timeline: Construction started in spring 2023 and was completed on all four buildings by mid-October 2024. Move-ins have been underway since summer 2024!



HOPE of the Midwest ("HOPE") is providing nearly \$11MM in construction financing for Richwood Bend, comprised of a \$10MM tax-exempt bond loan and \$1MM bridge loan. Cedar Rapids Bank out of Iowa is providing a \$5.8MM permanent loan.

HOPE bank members participating in the construction financing are:

Central Bank	Republic Bank
Farmers State Bank	Stock Yards Bank



Davis of Field & Main Bank elected 2025 chair of Ky Chamber

Scott Davis, chairman and CEO of Field & Main Bank, has been elected chair of the Kentucky Chamber of Commerce for the 2025 term. Davis succeeds Candace McGraw, CEO of the Cincinnati/Northern Kentucky International Airport, whose term expired on September 30, 2024.

Davis brings decades of experience as a banker and executive as chairman and CEO of Field & Main Bank, a Kentucky-charted community bank headquartered in Davis's hometown of Henderson. He became chairman and CEO in 2006 when the company was known as Ohio Valley Bank. Throughout his tenure, he has led the company through a merger, and an insurance company acquisition, and a company renaming and rebranding. His leadership has helped grow the company's size and footprint to five banking centers in Kentucky and one in Indiana.

"Scott's extensive experience in community banking and his proven leadership at Field & Main Bank make him an invaluable asset to the Chamber," said Kentucky Chamber President and CEO Ashli Watts. "Our organization is looking forward to the accomplishments we will achieve in the next year with him as chair."

"I'm honored to serve as the chair of the Kentucky Chamber of Commerce and look forward to the year ahead," said Davis. "As a community banker, I look forward to leveraging my experience to support the Chamber's mission of advancing Kentucky's business climate. Together, we'll work to foster economic growth and create opportunities that benefit the Commonwealth."





Traditional bank donates \$5000 to the Shelby county historical society.

Traditional Bank recently made a \$5,000 donation to the Shelby County Historical Society for use in a public archaeology project. Local Traditional Bank market leader Frank Page was on hand with a ceremonial check to mark the occasion.

The Shelby County Historical Society's mission is to preserve and promote knowledge and appreciation of Shelby County and Kentucky History. Together with the Kentucky Archaeological Survey and the Kentucky Heritage Council, they will use these funds for a public archaeology project in Shelby County. The work carried out at the site will incorporate volunteers, including high school students.

"As a community bank, we're proud to support an organization preserving the rich history of Shelby County. We're excited to see the project come to life," said Page.



Senator Storm celebrates Cumberland Valley National Bank 120th anniversary,

PRESENTS SENATE CITATION.

Sen. Brandon Storm, R-London, delivered remarks on Wednesday to celebrate Cumberland Valley National Bank's (CVNB) 120th anniversary. He presented CVNB with an official Senate citation recognizing the anniversary.

Storm proudly recognized CVNB for 120 years of dedicated service and community support with a Senate Citation commemorating the milestone. Since its founding in 1904, CVNB has become a pillar of financial stability and growth in southeastern Kentucky, playing an essential role in the lives of individuals, families, and businesses.

"Celebrating 120 years of operation is an outstanding achievement," Storm said. "Cumberland Valley National Bank has been a cornerstone in our region, providing crucial financial services and actively supporting our communities through charitable work and local engagement."

CVNB's history reflects its deep connection to the region. It began as the East Bernstadt Banking Company before evolving into one of southeastern Kentucky's largest banks. Today, with 15 branches spanning from Corbin to Louisville, the bank continues serving its customers while staying committed to its philanthropy and community service roots.

"It has been my privilege for the past 43 years to serve CVNB as a Director, CEO, President and Chairman of the Board," said Elmo Greer. "I would like to say thank you to the thousands of families and businesses that have allowed us to be a partner in their love of God, family and business."

"CVNB's dedication to the communities it serves is evident through its strong tradition of giving back," Storm added. "From supporting local charities and organizations to contributing to initiatives that make a lasting difference, their commitment is truly inspiring. I am proud to recognize their contributions through this Senate Citation."

Onward & Upward

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

The Murray Bank President and CEO, **Tony Ryan**, presented **Travis Manning** with the Employee of the Quarter award at the Bank's recent employee meeting. Manning currently works as the Head Teller at the Hazel Office of The Murray Bank. Congrats, Travis!

First Kentucky Bank Senior VP/HR Director, **Nicole Sullivan** announces that **Lisa Bartolo** has been named HR Administrator. Bartolo has been with First Kentucky as a Banker since February 2024.

Central Bank Chairman, President, and CEO **Luther Deaton, Jr.** announces **Christopher Schnelle** joins Central Bank as vice president, assistant director of financial intelligence and security unit. Chris comes to us with extensive security experience from the private and public sectors. His previous roles include the director of security for a Lexington landmark and as a police commander at the Lexington Police Department. His experience laid the foundation for his current responsibilities, which include ensuring the physical security of the bank, maintaining compliance with the Bank Secrecy Act, and overseeing investigations related to financial crimes. We look forward to seeing Christopher go after the bad guys in banking!

First Kentucky Bank President/CEO **Will Hayden** announces that **Brad Dame** has

been promoted to Market Executive for the Purchase Region. Dame has 23 years of combined banking experience with his most recent role as Vice President, Commercial Lending at First Kentucky. In Dame's new role as Purchase Region Market Executive, he will primarily be responsible for business development and commercial lending in Graves County, Carlisle County, and the surrounding areas. Well done, Brad!

Mark A. Gooch, Chairman, President and CEO of Community Trust Bancorp, Inc., is pleased to announce that **Stephanie L. Hudson** has been promoted to the position of Vice President / Corporate Regional Operations Manager at Community Trust Bank, Inc. As Corporate Regional Operations Manager Ms. Hudson acts as a liaison and project manager between all Community Trust Bank branches and centrally consolidated operations support areas to streamline operational processes. She assists in developing and implementing the Company's banking Operational Processes that affect all Community Trust Bank branch locations. We here at the KBA celebrate Stephanie's excellence in banking!

First Kentucky Bank Branch Administration Officer, **Corie Young** announces that **Autumn Green** has been named Branch Manager at our Benton Office. Green has over four years of

banking experience and has been with First Kentucky since 2020. Prior to her new role, she worked as Assistant Branch Manager at our Benton Office. She shared, "I'm excited to continue serving our customers at the Benton location as Branch Manager and proud to continue growing and developing my staff there. Thank you to First Kentucky for this opportunity and to my friends and family for the constant support." Keep up the great work!

First Kentucky Bank Branch Administration Officer, **Corie Young** announces that **Victoria Arellano** has been named Branch Manager at our Mayfield 6th Street Office. Arellano has over three years of banking experience and has been with First Kentucky since 2021. Prior to her new role, she worked as Assistant Branch Manager at our Mayfield 6th Street Office. She shared, "I'm so excited and blessed that God has opened the door to the next chapter in my life. I'm extremely thankful for the opportunity to continue growing at First Kentucky Bank. In my new role, I look forward to helping maintain the successfulness of the bank and assisting with the efforts to serve the financial needs of my hometown. The staff at First Kentucky are truly one of a kind, and I'm honored to be part of the team here."



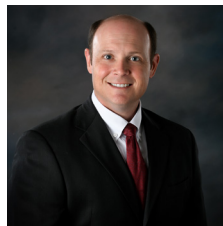
Travis Manning



Lisa Bartolo



Chris Schnelle



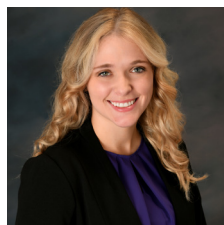
Brad Dame



Stephanie Hudson



Autumn Green



Victoria Arellano

<i>Month / Year</i>	<i>Date(s)</i>	<i>Program</i>	<i>Location</i>
December 2024	2-6	<i>Foundations of Banking School</i>	Louisville
	3	<i>FREE AI in Action: Success Stories</i>	Virtual
	12-13	<i>Bank Counsel Conference</i>	New Orleans, LA
April 2025	2	<i>Performing Commercial Evaluations Seminar</i>	Louisville
	15-17	<i>Consumer and Commercial Loan Documentation</i>	Louisville
May 2025	5-8	<i>Consumer Lending School</i>	Louisville
June 2025	1-6	<i>General Banking School</i>	Lexington
	18	<i>Security Seminar</i>	Louisville
September 2025	15-19	<i>Commercial Lending School</i>	Louisville
	23	<i>IRA Essentials Seminar</i>	Louisville
	24	<i>IRA Advanced Seminar</i>	Louisville

For more info on KBA Events & Education, please email pcross@kybanks.com or visit us at kybanks.com

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- Republic Bank & Trust
- First Horizon Bank
- Community Savings Bank



Judy Rose
VP, Marketing
rosejm@fhlbcin.com



Montez Shugars
Marketing Officer
shugarsmk@fhlbcin.com



Resolution Recognizing the Service and Life of Ms. Angela Woods

WITNESSETH, THAT WHEREAS, the Board of Directors of Middlefork Financial Group, Inc. and its subsidiaries, Hyden Citizens Bank, Inc., Farmers State Bank, Inc. and Farmers & Traders Bank of Campton, Inc., wish to express our Gratitude for the service to our Company by Angela Woods, who departed from this life on May 14th, 2024; and

WHEREAS, Angela Woods served in many roles throughout her impressive 36 year career with Middlefork Financial Group from teller to Branch Manager to her most vitally important role as President, CEO & Director of Farmers State Bank, Inc.

WHEREAS, through her years of devoted service and leadership, Angela Woods made a significant and lasting contribution to the growth, stability, and success of our Company, and the benefit of her knowledge and leadership in the conduct of the affairs of the Company will be greatly missed; and

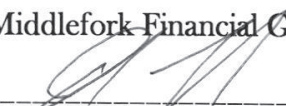
WHEREAS, Angela Woods was an example of what true leadership should be and this legacy will remain with our company, her employees and her fellow co-workers whom she spent so many dedicated years with. Above all, Angela will be remembered for her deep and abiding love for her family, specifically her sister, Connie Osborne and precious nieces, Elizabeth and Sarah Osborne.

NOW THEREFORE, be it resolved that Middlefork Financial Group, Inc., Hyden Citizens Bank, Inc., Farmers State Bank, Inc., and Farmers & Traders Bank of Campton, Inc., through their Board of Directors, do hereby extend our deepest appreciation and gratitude to the memory of Angela Woods for the many years of faithful service and numerous contributions to our Directorate, management, employees, customers, and communities.

BE IT FURTHER RESOLVED, that as a tribute to Angela Woods and as a reminder of the high esteem in which we hold her memory, this resolution be entailed in the permanent records of each Corporation, copies furnished to her Family, and the Kentucky Bankers Association.

Adopted this 17th day of July 2024, at the regular Board of Directors meeting for Middlefork Financial Group, Inc., Hyden Citizens Bank, Inc., Farmers State Bank, Inc. and Farmers & Traders Bank of Campton, Inc.

Middlefork Financial Group, Inc.



David Longenecker, Chairman of the Board

**RESOLUTION OF APPRECIATION
FOR
DR. JERRY N. CLANTON**

WHEREAS, the Board of Directors of Magnolia Bank wish to express our most sincere condolences to the family of our longtime friend, former shareholder, director, and chairman, Dr. Jerry N. Clanton, and

WHEREAS, Dr. Clanton served from October 1977 to May 2007 and we are grateful to him for his years of leadership and sound business judgement during his time on the Magnolia Bank Board of Directors.

WHEREAS, Dr. Clanton will be remembered for his many contributions to the Bank which included his vision in our multi-branch expansions into Hodgenville and Elizabethtown and his passion to provide our customers with the most current technology, products and services.

NOW, THEREFORE, BE IT RESOLVED, that Magnolia Bank not only take recognition of Dr. Clanton's contributions to Magnolia Bank but also to his long and devoted service to the healthcare community in Louisville, Kentucky.

BE IT FURTHER RESOLVED, that this Memorial Resolution be inscribed and presented to his wife, Jan Clanton, with a copy to be included in the official minutes of the board of directors meeting.

THIS RESOLUTION adopted by the Board of Directors of Magnolia Bank on this twentieth day of June, Two Thousand Twenty-Four.

Deena London

Deena London, President

Ron Sanders

Ron Sanders, Chairman

Ken Adams

Ken Adams

Glenn Catlett

Glenn Catlett

H.Y. Davis

HY Davis IV

Deborah Garner

Deborah Garner

Henry Hawkins

Henry Hawkins

James Mason

James Mason

Reggie McCubbin

Reggie McCubbin

Lowell Stokes

Lowell Stokes

Eric Garrett

Eric Garrett

*Resolution of the Board of Directors
of First National Financial Corporation
First National Bank of Manchester Of Manchester Kentucky
In Memory of Rex Greer*

WHEREAS, it is with profound sadness and heartbreak that the Board of Directors at The First National Bank of Manchester acknowledge the passing of our dear loved Chairman of the Board and President, a highly esteemed and cherished member of our Board of Directors and community;

WHEREAS, the community referred to him as a friend, we affectionately knew him as our mentor, father, grandfather and leader;

WHEREAS, Mr. Greer uniquely spread his spirit of friendship to all that came in contact with him. Over his life Mr. Greer not only operated a Bank but also a large construction company, insurance agency, farms, various businesses, and so much more. He served as a past president of the Kentucky Highway Association of Contractors and the Plantmix Asphalt Industry of Kentucky. Mr. Greer was a Deacon at New Salem Baptist Church and touched countless lives throughout his time here on earth.

WHEREAS, we extend our deepest condolences to the Greer Family, friends, and loved ones, offering our unwavering support and sympathy during this challenging time of grief and loss;

WHEREAS, it is our duty to honor Rex Greer's memory and perpetuate his legacy, ensuring that his contributions continue to inspire and guide us as we carry forth the mission of The First National Bank of Manchester;

WHEREAS, Mr. Greer led by example in living out FNBM's Core Values of Friendliness, Quality Customer Service, Family and Community.

BE IT RESOLVED, that we rename the bank's daily Core Values to The Greer Core Values so that he may forever be interwoven into our culture and daily actions. These values will consist of putting God and family first, selflessness, trust, hard work, and commitment to our Bank and Community.

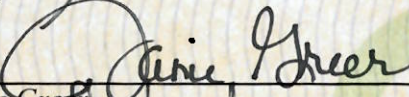
BE IT FURTHER RESOLVED The First National Bank of Manchester officially expresses its profound gratitude and appreciation for the invaluable contributions made by Rex Greer as a member of our Board of Directors for close to 50 years.

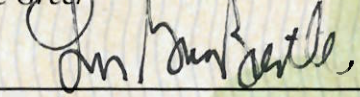
BE IT FURTHER RESOLVED, that this resolution shall be entered into the permanent record of the minutes of The First National Bank of Manchester this 15 day of August, 2024 and shall

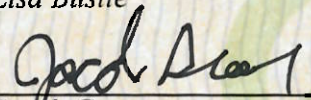
further be delivered to the family of Mr. Greer and executed by the directors of the company and a copy be sent and published in the Kentucky Banker, the publication of the Kentucky Bankers Association.

Approved unanimously by The First National Bank of Manchester Board of Directors: Jimmy Dobson, secretary, Greg Greer, son, Janie Greer, daughter, Lisa Bustle, daughter, Alex Lewis, grandson, Jacob Greer, grandson, Garth Bustle, grandson, Lucas Shepherd, CEO, Don Roberts, Charles Goins, and Michael Baker.

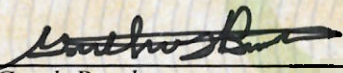

Greg Greer


Janie Greer

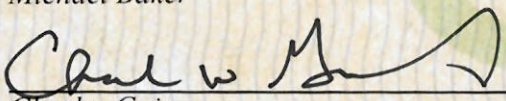

Lisa Bustle


Jacob Greer

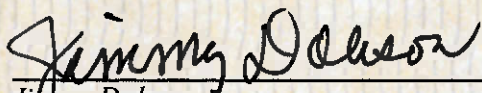

Alex Lewis


Garth Bustle


Michael Baker


Charles Goins


Don Roberts


Jimmy Dobson


Lucas Shepherd, CEO





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CHALLENGE: The banking industries rapidly evolving IT and InfoSec landscape is making it difficult to manage. It requires specialized expertise.

SOLUTION: Partner with an MSP that specializes in banking. Their expertise ensures robust cybersecurity, regulatory compliance, and efficient IT operations, allowing your bank to stay ahead of threats and focus on what matters most – serving your customers.

Aren't all IT managed service providers the same? Not exactly. An MSP with a banking focus can provide you lots of shortcuts and benefits, including:

 A portrait of Cameron Loughery, a man with glasses and a suit, smiling.

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Cameron Loughery
Business Development Representative

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Gold-standard, CISSP-certified cybersecurity experts can make sure all your written cybersecurity policies, plans, and procedures are on point and regulation ready. After serving hundreds of banks nationwide, we know exactly what a bank needs for third-party vendor risk management, system monitoring, and so much more.

2) White-Glove Handling of your FFIEC Audit –
Never worry your IT MSP doesn't "get" the pressures that come from your audit documentation. We'll handle your questionnaires from start to finish.

3) Bank-board Reporting for Your IT KPIs –

Our staff knows how to create data and deliverables your c-suite needs for its decision making. We'll come to your board meetings knowing how to speak your language and walk our talk.

4) Software and Packages Designed just for Banks –

Our products are designed specifically for the needs of community banks, from cloud productivity, to cybersecurity, to backup/disaster recovery and more.

5) Around-the-Clock Service and Escalation Desks –

We understand the sacred trust that comes with handling your customer's online transactions, and the importance of a smooth-running system. That's why our bank-dedicated service desk is never closed, and our expert escalations are always available to your IT leadership. From our vCIOs, to our onsite teams, to our on-call team, you'll only deal with bank-only experts.

6) Disaster Recovery Built for the Speed of Banking –

With offsite, scalable backups and business continuity planning that will get you up and running fast.

7) Partnership with Your Core Providers

We have an excellent working relationship with your core providers. We'll provide the system frameworks and supports to keep them running well.

8) IT Strategy for the Future of Banking

From machine learning to AI chatbots, we understand what fast growing tech is best for the bank sector. We can show you how to deploy it – safely.

Integris provides managed IT service for more than 100 banks nationwide. The 200+ employees in our Financial Institution Division would love to show you what bank-focused IT can do for you. Contact us today for a free consultation at integrisit.com/contact.

SPOTLIGHT

On New KBA Associate Members

DDI Technology, an IAA Company, Irmo, SC

DDI Technology provides automotive title management services to lenders across the country. As Kentucky adopts electronic lien & title, DDI can partner with bankers to allow for easier processing and management of the titles. DDI Technology offers solutions in all 50 states. Contact: Anthony Lipinski

Diebold Nixdorf, North Canton, OH

Diebold Nixdorf (DN) is a leader in enabling connected commerce consumers. DN delivers unparalleled solutions that are essential to evolve in an 'always on' environment. Contact: Heather Minock

K2 Advisors Group, Fountain Inn, SC

K2 handles large self-funded health benefits consulting and total Health 360 Program. Contact: Josh Hyman

Lendio, Lehi, UT

Lendio is the nation's leading business loan marketplace. Lendio also offers Intelligent Lending, a SaaS platform that allows financial institutions, including Kentucky banks, to profitably serve small business owners of every size with capital solutions, easing the underwriting process and providing instant loan offers. Contact: Bryndee Helquist

MeridianLink, Costa Mesa, CA

MeridianLink® empowers banks to drive cost-effective growth with cloud-based digital lending, account opening, and data verification solutions from a unified data platform. For 25 years MeridianLink has helped banks of all sizes identify growth opportunities, effectively scale up, and mitigate security and compliance risks, while powering an enhanced experience for staff and customers. Contact: Jill Lockwood, Sr. Director

UFS Tech, LLC., Grafton, WI

UFS Tech, LLC., specializes in providing essential services to financial institutions, including Managed IT Services, Cybersecurity, Advisory Services, and Banking Applications (Core Banking). Contact: Jeff Bomm

Vivitec, Inc., Crestview Hills, KY

Vivitec provides cybersecurity, compliance, and IT services to a broad set of industries including banking and financial industries. Heavily regulated industries are ideal industries for Vivitec services. Contact Bruce Kelly



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!





IOLTA: A Win-Win *For Banks and Communities*



Interest on Lawyers' Trust Accounts (IOLTA) programs have become an integral part of the banking and legal landscape, offering significant benefits to banks, attorneys, and communities alike. As financial institutions seek innovative ways to meet their community obligations and improve their bottom line, IOLTA emerges as a powerful tool that accomplishes both.

What is IOLTA?

IOLTA accounts are interest-bearing accounts used by lawyers to hold client funds temporarily. These accounts typically contain small amounts or short-term deposits that would not earn enough interest to offset the cost of opening and maintaining separate accounts for each client. Instead, the interest generated from these pooled accounts is directed to state IOLTA programs, which use the funds to support civil legal aid for low-income individuals. The Kentucky IOLTA Fund has awarded nearly \$22 million in total grants since its founding in 1988. In 2024, the IOLTA Fund award \$1 million total to the four legal aid entities and \$20,000 to each of the three state law schools for public interest fellowships.

Benefits for Banks

1. **Increased Deposits:** IOLTA accounts can significantly boost a bank's deposit base. Law firms often maintain substantial balances in these accounts, providing banks with a stable source of funds.
2. **Enhanced Community Relations:** By participating in IOLTA programs, banks demonstrate their commitment to social responsibility and community development, enhancing their public image.
4. **Competitive Advantage:** Offering IOLTA accounts can give banks an edge in attracting and retaining law firm clients, who often bring additional valuable business relationships.
5. **Simplified Account Management:** IOLTA accounts streamline the process of managing multiple client trust accounts, reducing administrative burden for both banks and law firms.
6. **Community Reinvestment Act (CRA) Considerations:** Participation in IOLTA programs can positively impact a bank's CRA evaluation.

IOLTA and the Community Reinvestment Act

One of the most compelling aspects of IOLTA for banks is its potential impact on Community Reinvestment Act evaluations. The CRA encourages banks to meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods.

IOLTA programs align perfectly with CRA objectives by directing funds to civil legal aid organizations that serve low-income individuals. These services often address critical issues such as housing, family law, consumer protection, and access to public benefits – all of which contribute to community stability and economic development.

Importantly, Kentucky's IOLTA program is prepared to support banks in demonstrating the community impact of their

participation. Upon request, IOLTA will provide leadership banks with detailed documentation on how the funds generated by their IOLTA accounts were used to support civil legal aid initiatives. This documentation can be invaluable for banks during CRA evaluations, offering concrete evidence of their commitment to serving low- and moderate-income communities.

Community Impact

The benefits of IOLTA extend far beyond the banking sector. By providing funding for the four legal aid entities in Kentucky, IOLTA programs help ensure access to justice for those who might otherwise be unable to afford legal representation. This support can have far-reaching effects on community stability and economic health. Robert Johns, Executive Director of Legal Aid of the Bluegrass, had this to say about IOLTA's impact:

IOLTA funding has been a gamechanger for our organization and the communities we serve. It's not just about the financial support, though that's crucial, it's about what that support enables us to do. Last year alone, IOLTA funds helped us assist nearly 350 domestic violence survivors obtain protective orders; stabilized the lives of about 500 other adults and children experiencing violence or other serious issues through divorce or custody actions; gave a fresh start to over 1,000 wage earners and their family members by expunging non-violent criminal records; and secured health insurance and other rightful benefits for more than 150 elderly and disabled people so they could access healthcare, food, and other basic necessities. These aren't just statistics; these are real people whose lives have been transformed to enjoy safety, increased income, better health and stability. IOLTA is a shining example of how the legal and banking communities can come together to make justice accessible to all, regardless of income. It's a vital lifeline that allows us to bridge the justice gap and build stronger, more equitable communities.

Implementing IOLTA in Your Bank

For banks considering implementing or expanding their IOLTA programs, here are key steps:

1. Familiarize yourself with Kentucky's IOLTA rules and requirements - KBF | IOLTA Information for Banks (kybarfoundation.org)
2. Develop internal processes for setting up and managing IOLTA accounts
3. Train staff on IOLTA procedures and benefits
4. Reach out to local bar associations and law firms to promote your IOLTA services
5. Establish a system for tracking IOLTA deposits and interest payments
6. Regularly communicate with Kentucky's IOLTA program to stay updated on any changes or opportunities

Conclusion

IOLTA programs represent a unique opportunity for banks to simultaneously enhance their business operations, fulfill regulatory obligations, and make a meaningful impact in their communities. By embracing IOLTA, banks can access a stable source of deposits, improve their CRA performance, and play a crucial role in funding vital legal services for those in need.

Looking at the Big Picture: *Fair Lending Concerns on Valuations*



by **Jessica D Lamoreux**
Associate General Counsel



Recent actions by regulators indicate a growing concern about fair lending risk, specifically, as it pertains to appraisals and valuations used to make credit decisions. Based on the increased interest in this area, banks may want to ensure that their management of fair lending risk includes a detailed look at their valuation process.

The focus on this issue kicked off with the creation of the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE) in 2021, but federal agencies are also taking independent actions. For example, in March 2023, the Consumer Financial Protection Bureau (CFPB) and the Department of Justice (DOJ) filed a Statement of Interest in a case alleging that the appraised value of a black consumer's home increased by nearly \$300,000 after the owners "whitewashed" their home by removing photos of themselves from the home and being absent during the second appraisal. More recently, in July 2024, the U.S. Department of Housing and Urban Development (HUD) announced a lawsuit against an appraiser and a lender, alleging racial bias in the appraisal of another black consumer's home. In that case, HUD alleges that the appraiser used comparable sales from a nearby majority-minority area rather than those from the predominantly white neighborhood where the property was located. The lender and the appraiser did not revise the appraisal when the consumer challenged the valuation.

In July 2023, the agencies proposed guidance on Reconsiderations of Value (ROV) that was finalized in July 2024. This broad guidance will apply to all situations where there may be concerns about the accuracy of an appraisal or valuation, but it specifically emphasizes fair lending concerns. "Prohibited discrimination" is the first item listed in the guidance as a possible cause of deficiencies in valuations. The guidance states that appraisal bias, if not remedied, would be considered a violation of the Equal Credit Opportunity Act (ECOA) and Regulation B. The ROV Guidance also reiterates, as the agencies have asserted in other contexts, that financial institutions are responsible for monitoring the compliance of third parties, including appraisers.

The agencies also recently published a final rule on the use of automated valuation models (AVMs) in credit decisions, explicitly requiring that banks ensure that the AVMs they use "comply with applicable nondiscrimination laws." While the AVM guidance expresses regulator concern about automation and artificial intelligence – another recent focus – it also is targeted at the issue of discrimination in valuations and builds on both the ROV guidance and the lawsuits in which federal agencies are participating.

Taken together, these regulator actions demonstrate that bank reviews of appraisals and valuations should be calibrated to detect discriminatory bias, and the lawsuits suggest a few items

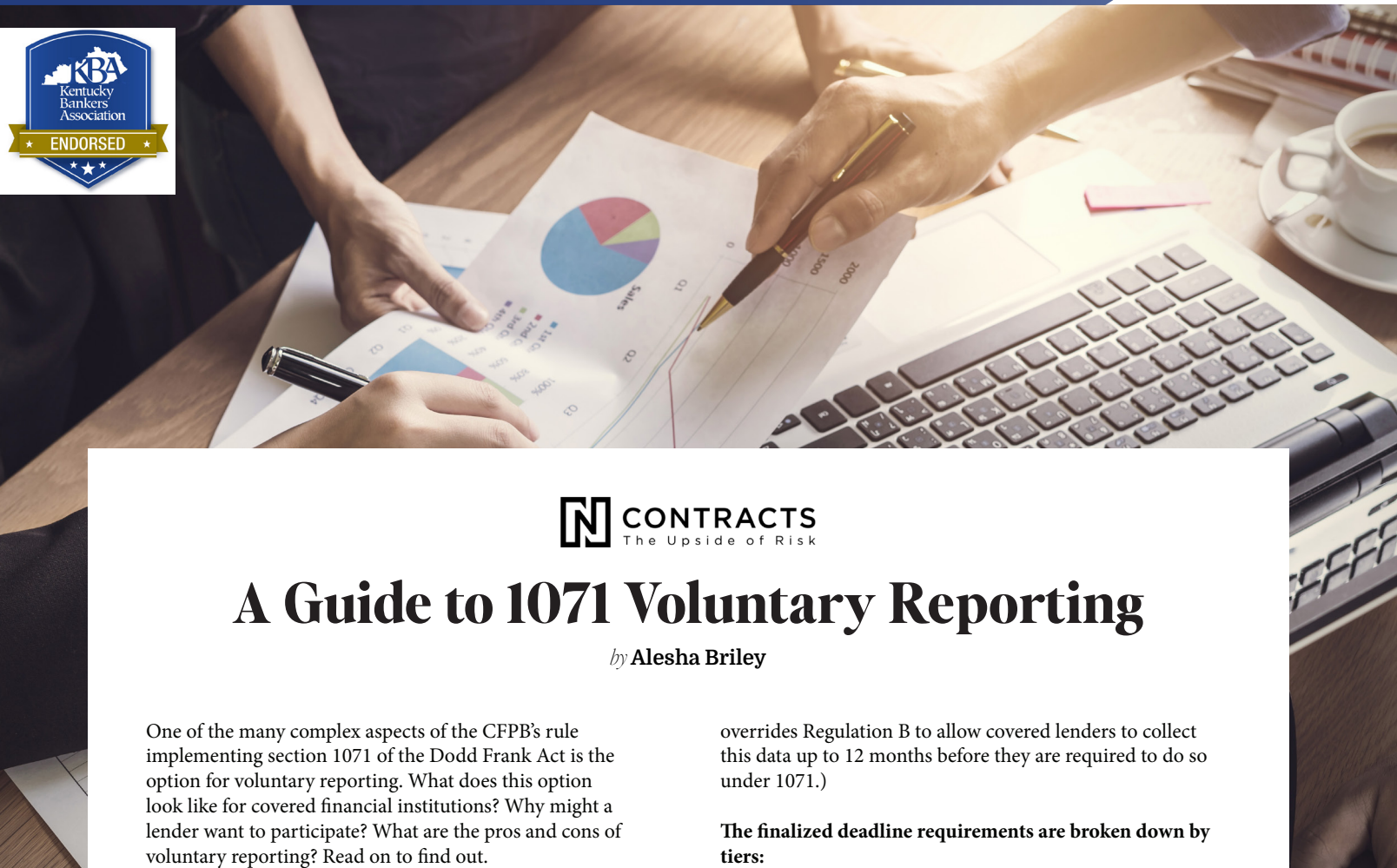
that may be worth extra scrutiny. One of these is the selection of comparable properties or "comps," as they are often called by appraisers and lenders. Lawsuits have alleged that the comps selected for an appraisal have reflected the race or ethnicity of the homeowner more than specifics of the property itself. For banks, the takeaway is that when the selected comps are not the recently sold properties closest to the appraised property, the bank should examine the reason that more distant properties were used.

The general trajectory of property values in the area may also be worth a careful look. If area property values have generally increased since the subject property was last sold or appraised, a valuation that shows a smaller increase or a decrease in value as compared to the last sale or valuation may raise eyebrows. In the lawsuits alleging valuation discrimination, plaintiffs consistently argue that a valuation showing a change in value that is not in line with the general trend for area property is an indicator that the valuation is unfairly biased. When reviewing an appraisal, it may be useful for banks to look at the last appraisal or sale of the property and the general trend for area property values since that time, ensuring that there is a reasonable basis for any divergence from that trend.

The reconsideration of value process provides an additional opportunity for the bank to mitigate risk. In the immediate transaction, there is both fair lending and safety and soundness risk to the bank if it does not fully review the valuation and ensure that the value assigned to the property is accurate. Based on the conglomeration of guidance and lawsuits on this topic, however, resolving any issues with the valuation is only the first step.

Because of the bank's obligation to oversee third party service providers and ensure that they also comply with fair lending rules and other requirements, a well-constructed ROV process should feed into the bank's vendor management program. When an appraisal or valuation is determined to be inaccurate or unreliable, that information should be sent to those responsible for vendor management to ensure that the bank does not continue to use appraisers that are not consistently providing quality appraisals. Reviewers of vendors that provide valuations should monitor those vendors for quality, including any indicators of discriminatory bias.

Finally, even where a challenged or disputed valuation is found to have been reliable and valid, the bank's adherence to the ROV process, including a thorough (and thoroughly documented) objective review of valuations, as well as careful consideration of any issues raised about the valuation, demonstrate to regulators (and, in the event of litigation, to courts) that the bank is committed to ensuring accurate valuations.



A Guide to 1071 Voluntary Reporting

by Alesha Briley

One of the many complex aspects of the CFPB's rule implementing section 1071 of the Dodd Frank Act is the option for voluntary reporting. What does this option look like for covered financial institutions? Why might a lender want to participate? What are the pros and cons of voluntary reporting? Read on to find out.

What is voluntary reporting?

Voluntary reporting is the opportunity for covered lenders to benefit from a 1071 data collection trial run.

Historically, the demographic data required by 1071 has generally been off limits for financial institutions. Financial institutions are expressly prohibited from collecting personal data from potential borrowers that does not directly pertain to their ability to repay the credit under 12 CFR 1002 (Regulation B) – part of the CFPB's implementation of the Equal Credit Opportunity Act (ECOA). Regulation B prohibits the collection of data points such as sex, sexual orientation, religion, and race of potential borrowers. 1071 upends this longstanding rule by requiring covered lenders to collect certain demographic data.

The CFPB knows that it won't be easy for lenders to suddenly start collecting data to report – they will need time to fine tune processes. CFPB introduced voluntary reporting to give covered institutions an opportunity to practice 1071 data collection ahead of time or to continue collecting data if they meet certain parameters. With voluntary reporting, in some instances institutions can collect, analyze, and report on 1071 data before they are required to do so.

(The voluntary collection provision of 1071 essentially

overrides Regulation B to allow covered lenders to collect this data up to 12 months before they are required to do so under 1071.)

The finalized deadline requirements are broken down by tiers:

- Tier 1 institution is permitted to begin collecting protected demographic information on or after July 18, 2024.
- Tier 2 institution may begin on or after January 16, 2025.
- Tier 3 institution may begin on or after October 18, 2025.

1071's voluntary reporting provisions come with time limitations and other nuances that your institution should understand before engaging in voluntary reporting. See *section 2.6 of the Small Business Lending Rule – Small Entity Compliance Guide*.

Why would a financial institution collect this data early?

The number of data fields and strict firewall requirements to protect the privacy of potential borrowers makes compliance with 1071 very complex. These requirements are unprecedented for most lenders and a huge lift.

Voluntary reporting gives covered institutions:

More time and opportunity to prepare.

It's rare for everything to be perfect the first time a process is implemented. Policies and procedures may not be clear. Staff may not understand what they are supposed to do. Systems might be buggy.

Financial institutions that embrace voluntary reporting will have more time and opportunity to work out the kinks and

refine their processes. Whether there are gaps in processing or staff needs more training, voluntary reporting gives covered lenders the ability to identify weaknesses and correct them. By the time the compliance deadline arrives, they can be confident that they can accurately and efficiently collect the required data.

Resolve potential fair lending issues before exam time.

No financial institution wants to discriminate, but data analysis often reveals unintended discrimination.

Regulators are on the lookout for:

Overt discrimination. Overt discrimination is when a lender openly and/or actively discriminated against on a prohibited basis factor. If a lender offers a lower interest rate only for people in a certain age bracket and not others, this would be an example of discrimination on a prohibited basis factor.

Disparate treatment. Disparate treatment is when members of a prohibited basis group are treated differently than others based on prohibited characteristics. It doesn't have to be deliberate. For instance, if a loan officer waives a specific fee for friends who are similarly situated (i.e. non-Hispanic middle-aged white males), it can result in better terms and pricing for some groups compared to prohibited basis groups.

Disparate impact. Disparate impact is when a neutral policy or practice that is applied equally to all individuals nevertheless has a disproportionately adverse impact on a protected class of people. For example, a lender might set a minimum loan amount of \$150,000. This policy seems neutral on the surface since it's applied to all applicants. However, if many of those borrowers come from a protected class are seeking small-dollar business loans, it can have a disparate impact even though there was no intention to discriminate. (In such cases, a lender might be required to justify the policy as a business necessity or adjust it to mitigate the disproportionate effect on protected groups.)

Are there any risks with voluntary reporting?

Not every institution will adopt voluntary reporting. The time, cost, and complexity of complying with Section 1071 has paralyzed some institutions into inaction, leaving them overwhelmed by the sheer volume of new data collection and reporting requirements. The fear of missteps, coupled with the need for significant investments in technology, staff training, and process overhauls, has caused some institutions to delay or avoid taking proactive measures. As a result, these institutions risk falling behind their more prepared counterparts when the regulatory deadlines take effect.

However, this strategy is risky. Delaying compliance efforts could leave institutions scrambling to meet requirements

at the last minute if the rule remains intact. It's like the student that puts off their homework in hopes school will be cancelled due to snow. Rolling the dice on flurries isn't a good strategy.

Should my financial institution voluntarily report for 1071?

If possible, yes.

Now that the Federal Court has upheld 1071 wholesale, we can be sure that this regulation is not going anywhere. While the ABA will likely appeal the ruling, it's doubtful that the regulation will be substantially changed. In fact, many institutions have taken a "wait and see" approach and, as a result, have already missed out on a key preparation opportunity.

When the compliance deadline arrives, you'll want to be as ready as possible. Just like in sports, practicing ahead of game day is essential. Engaging in voluntary reporting now is highly recommended for all covered and eligible institutions.

No matter the outcome of the current legal challenges, it is highly probable that 1071 will endure in some capacity. Preparing now allows you to adjust your approach as needed, rather than scrambling at the last minute to assemble a compliant system. Get ahead by discussing your compliance plan with your team and identifying steps your institution can take today to be ready for 1071 compliance.

What do you do with your collected data?

The final rule specifically calls out the requirements of the rule your institution must follow if it will voluntarily collect data. For example, your institution must comply with the firewall requirement or notice exception and ensure the Loan Application Register (LAR) does not contain personally identifiable information (such as name or a specific address).

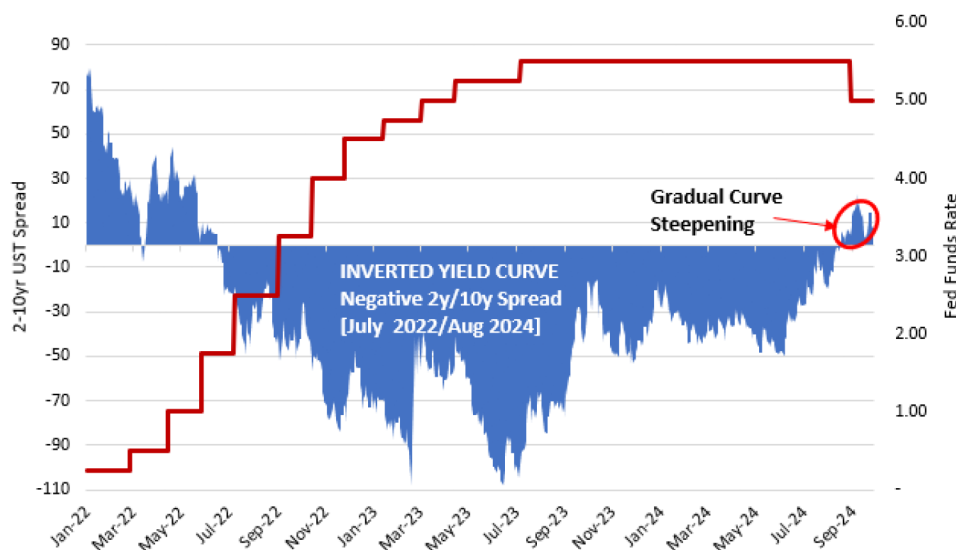
As to what you should do with this data once you've collected it, you are not required to file this with the CFPB and you do not have to retain this data under the recordkeeping requirements of the rule. Basically, as long as you keep the demographic information and business status of the principal owners away from the loan file or provide applicants with the appropriate notice, this data is for your institution to work with internally. Once you are required to comply with the rule, the other requirements of the rule will apply regarding data transmittal to recordkeeping.

Alesha is a Regulatory Compliance Expert focusing on Lending Compliance for the Content Team at Ncontracts and holds a designation from both the Mortgage Banker's Association as a Certified Mortgage Compliance Professional and the American Banker's Association as a Certified Regulatory Compliance Manager. Alesha is passionate about helping others and lending her expertise to "find and fix" compliance-related issues.

Steepening of the Yield Curve: A Shift in Depository Institution Strategies

Over the past two years, the yield curve inversion signaled potential recession risks, reminiscent of downturns in the 1970s and 1980s. By August 2024, however, signs of gradual steepening began to emerge. While not initially a major focus, the Federal Reserve's 50 basis point rate cut in September brought the issue to the forefront. Since August 20, the 2-year yield has held steady at 3.95%, while the 10-year yield has risen 20 basis points to 4.01%, indicating a gradual steepening of the curve (**Graph 1**). This shift points to a potential soft landing, with inflation being controlled without triggering severe unemployment or a deep recession. The labor market remains strong, with stable unemployment and healthy job openings.

Graph 1 - Historic 2yr-10yr UST Spread and Fed Funds Rate:
Longest Curve Inversion on record yet to trigger recession



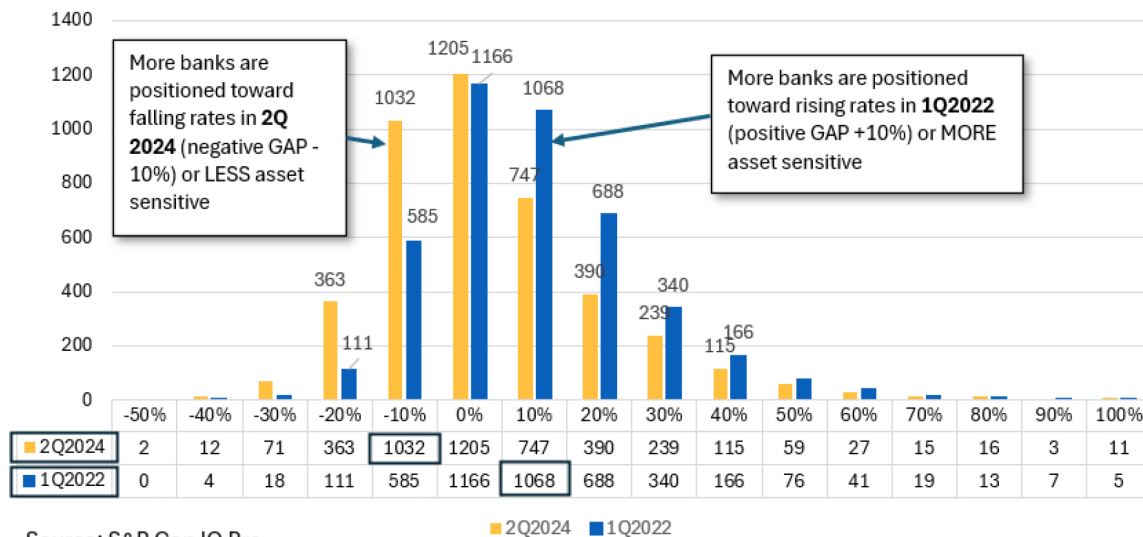
Source: Bloomberg

Opportunities and Challenges for Depository Institutions

For depository institutions, the evolving yield curve presents both opportunities and challenges. Since Q1 2022, when the Federal Reserve began its rate-tightening cycle, many institutions became more asset sensitive, holding shorter-duration assets to capitalize on rising rates, which led to an inverted yield curve. However, as the curve has recently started to steepen, extending duration has become more attractive. In Q2 2024, more institutions have shifted to less asset sensitivity, positioning for falling rates (**Graph 2** next page). Institutions that previously focused on shorter-term securities are now finding value in shifting to longer-duration securities as further rate cuts are anticipated.

Despite these opportunities, not all institutions have fully adapted. Some continue to struggle with high deposit costs, poor credit quality, and profitability concerns. Institutions hesitant to extend duration remain vulnerable to margin compression if rates continue to decline. As deposit rates hit their floors, short-term funding may become more expensive, pressuring net interest margins (NIMs) and overall profitability.

Graph 2 - Shift in Bank Rate Sensitivity: From Higher in Q1 2022 to Less Asset Sensitivity and Positioning for Falling Rates in Q2 2024

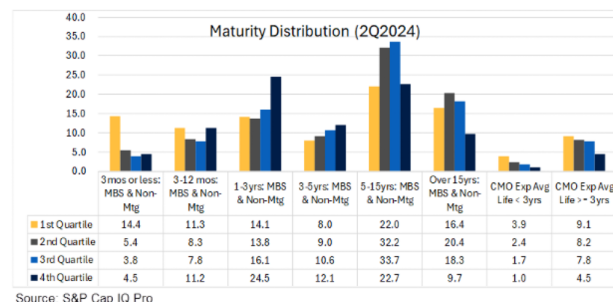
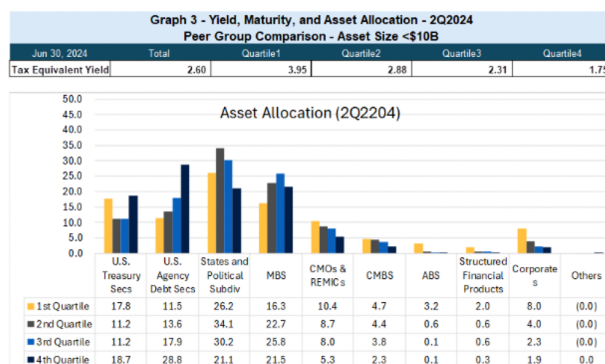


Adapting to Changing Conditions

An analysis of bank data over the past two years shows that institutions that adjusted their portfolios in response to rate changes have outperformed their peers. In 2022, top-performing banks sold longer-term securities early and positioned themselves for a rising rate environment. These institutions balanced short- and long-term holdings to mitigate risks. In contrast, banks that held onto longer-term securities without adjusting are now facing greater financial strain as rates decline.

Graph 3 (next page) illustrates the tax equivalent yield (TEY) and the maturity structure of a peer group of U.S. banks with assets under \$10 billion. Top-performing banks in Q2 2024, with the highest TEY, focused on two key strategies: a diversified portfolio, with roughly equal allocations in UST, Agencies, MBS, and CMOs in the teens, and a shift toward longer-term securities. These banks still hold a significant allocation to Municipals, though it has decreased from around 50% to over a quarter (26.2%) over the past two years. In contrast, bottom quartile banks hold more Agencies (28.8%) and less Municipals (21.1%).

On the maturity side, top quartile banks tend to hold more short-term securities (14.4% in 3 months or less vs. 4.5%) and have a higher allocation to longer-term securities (16.4% in over 15 years vs. 9.7%). This strategy allows them to benefit from falling rates while preserving flexibility for future adjustments as the yield curve evolves.



Conclusion: A Strategic Opportunity

The gradual steepening of the yield curve presents a strategic opportunity for depository institutions. As the Federal Reserve signals further rate cuts, institutions that extend duration and diversify their portfolios will be better positioned to succeed in a declining rate environment. While caution is understandable, acting now to secure favorable yields could lead to stronger performance in the future. Waiting for the Fed to announce more cuts may result in missed opportunities to lock in higher returns.

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