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KENTUCKY BANKER

THE SUN SHINES BRIGHT

130TH ANNUAL CONVENTION

SEPTEMBER 19-22, 2021
THE OMNI GROVE PARK INN, ASHEVILLE, NC

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Kentucky Banker Magazine
Official KBA Publication
Summer 2021

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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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Bold frame denotes management team member. Please feel free to email us, we are here to help!

KENTUCKY BANKER

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ABA Homeownership Study

ABA FOUNDATION

Homeownership in America

America's banks are committed to making homeownership attainable. Achieving that requires addressing the obstacles that stand in the way of consumers building their wealth—and reaching their goals.

84% say buying a home is a top priority

Source: NerdWallet

Growing Wealth Gap Between Owners and Renters

Source: Federal Reserve

A Glimpse at the Gaps

Some Americans face bigger barriers to homeownership, including:

Communities of Color

Homeownership Rate and Median Net Worth

Homeownership Rate | Median Household Net Worth

	Homeownership Rate	Median Household Net Worth
WHITE	74%	$188K
OTHER/MULTIPLE RACES	57%	$75K
HISPANIC	49%	$36K
BLACK	45%	$24K

Source: Federal Reserve, Census Bureau

Younger Generations

Homeownership Rate at age 25-34

MILLENNIALS	GEN X	BABY BOOMERS
37%	45%	45%

Source: Urban Institute

ABA FOUNDATION

Paving the Path to Down Payments

Saving for a down payment is the #1 hurdle to homeownership...

1 in 3 Millennial buyers say a down payment is their top obstacle to buying a home

Millennial Roadblocks

$40K Average student loan debt: $40k

12% Rising home prices: 12% annually

10 YEARS= the time it takes the average homebuyer to save for a 5% down payment. Saving is more difficult for communities of color.

Years to Save 5% Down Payment, by Race and Ethnicity

WHITE	HISPANIC	BLACK
9 YEARS	11 YEARS	14 YEARS

Source: Center for Responsible Lending

...but misconceptions about down payments are common.

7% The median down payment for first-time buyers is 7%

20% However, the majority of Black and Hispanic buyers believe a 20% down payment is required.

Share that Believe a 20% Down Payment is Required to Buy a Home

BLACK	58%
HISPANIC	55%
MILLENNIALS	21%
ALL U.S.	36%

Source: Wells Fargo, NerdWallet

70% are unaware of down payment assistance programs for middle-income buyers

Across the U.S.

2,305 down payment assistance programs

Banks are committed to helping Americans become homeowners.

For helpful information and consumer resources visit aba.com/consumers

CHAIRMAN'S CORNER by Mr. J. Wade Berry
President & CEO, Farmers Bank & Trust Co.
2020-2021 KBA Chairman

My Old Kentucky Home is worth a lot more than it used to be…

The Kentucky Bankers Association will gather this September at the legendary Grove Park Inn in Asheville, North Carolina to celebrate the association's 130th annual convention. This year's convention theme is "The Sun Shines Bright," a not-so-subtle nod to Stephen Foster's 1852 classic "My Old Kentucky Home, Good-Night." The mood and meaning of the song "My Old Kentucky Home" have long been debated by everyone from casual listeners to academics, especially around Kentucky Derby time. There is, however, widespread consensus when it comes to the subject of "actual Kentucky homes" in 2021; whether you're planning to buy an old Kentucky home or build a new one, it's going to cost a lot more money now than it would have cost a couple of years ago.

TRULY A SELLER'S MARKET

Home prices are soaring nationwide. More than half of the homes that sold in May sold ABOVE the seller's asking price. More than half! Low interest rates combined with pandemic-inspired desires for more space and the ability to work from home have led to bidding wars, surging prices, and low inventory in many markets across the country. Gone (at least temporarily) are the days of sellers setting home prices high to allow room to negotiate in hopes of meeting in the middle after receiving a low ball offer from a prospective buyer. This truly is a seller's market. Sellers want top dollar for their homes and they aren't willing to do any repairs. Homes are being offered for sale "as-is" and the usual contingencies are becoming things of the past. Besides offering above asking price, prospective buyers who want to compete for the best homes are agreeing to waive appraisals and inspections lest the seller ignore their offer and move on to a buyer who's willing to accept greater risk.

"Gone (at least temporarily) are the days of sellers setting home prices high to allow room to negotiate in hopes of meeting in the middle after receiving a low ball offer from a prospective buyer."

WAITING ON THE RIGHT PROPERTY

I'm directly involved in one telling example of what's happening in today's market. In May, I pre-approved a couple to buy a vacation home on Florida's Gulf Coast. After looking for several weeks and seemingly being a day late on every deal, the couple decided that the wife would get a hotel and stay in Florida full-time so they could be ready to make an offer the day a suitable property was listed. After a week waiting for the right buying opportunity, the couple found the condo of their dreams listed for $899,000.00. Within four hours of the condo being listed, there were five offers made above the asking price. My customers became the winning bidders by offering $910,000.00 and waiving all contingencies other than a termite inspection. There was little chance that the condo would appraise for the purchase price given that the seller had only paid $690,000.00 for the property in the Fall of 2020. Plus, an identical condo had sold for $888,000.00 two weeks prior to my clients' offer. Since my clients were extremely strong financially, our bank was comfortable with the deal even with the knowledge that the buyers were paying well above market for the property. Two weeks later it seemed as though my clients had gotten a bargain because an identical condo in the same neighborhood sold for $950,000.00. When and where this stops is anyone's guess at this point.

HOMES IN THE COMMONWEALTH

Kentucky's real-estate market, much like its weather, isn't quite as hot as Florida's. But it's still pretty darn hot for Kentucky! Average home prices are up 20% or more across much of the Commonwealth, and many Kentucky markets are reporting average days on market of seven days or less. I'm not surprised that Kentucky's larger markets like Louisville, Lexington, and Bowling Green are seeing homes sell quickly for more than the seller's asking price. But I am surprised to observe the same trend in small to mid-sized towns in my part of the state like Henderson, Paducah, and Eddyville. My oldest daughter is considering buying a home in Paducah. I went with her to look at a house earlier this year and I personally experienced the unsettling feeling of looking at a newly listed home while two other potential buyers were waiting in the driveway with their respective realtors.

WILL THE BUBBLE BURST?

It's reasonable to wonder if the pressure to make quick buying decisions will lead to poor individual buying decisions and future economic woes for our country. After all, today's real-estate market feels a lot like the real estate market of 2006 before the bubble burst. When the last bubble burst, it triggered a global financial crisis and one of the deepest economic downturns since the Great Depression. Thankfully, there is a major difference between what is happening today versus 2006. Lending standards today are significantly tighter and it is much more difficult for buyers with poor credit or questionable repayment capacity to get a loan to buy a home.

continued on the next page

continued: Chairman's Corner

BUILD A NEW HOME?

Buyers discouraged by rising home prices and the intensely competitive market for existing homes are unlikely to find building a new home to be a better option. Lumber prices soared to all-time highs during the coronavirus pandemic, fueled by strong demand for new homes and a surge in renovations during the lockdown. Prior to the pandemic's official U.S. beginning date of March 13th, 2020, lumber prices were $343 per thousand board feet. A year later lumber peaked at nearly $1,700 per thousand board feet in April 2021! Lumber is back down to about $900 today, but even if you can afford lumber and other building materials, there is no guarantee that you'll be able to find them. Shortages of building products abound including staples like windows and doors, appliances, and furniture.

ZOOM TOWNS

While rising home prices were common across much of the country, there have certainly been geographic winners and losers in the global pandemic. The work-from-home experiment was a resounding success that led many large companies to close their large and expensive corporate offices in major cities like New York and Chicago.

That's great news for millions of workers who've spent much of their lives stuck in city traffic. Those workers are leaving crowded cities behind and moving to "Zoom Towns." A Zoom Town is a community that experiences a significant population increase as remote work becomes more popular. The name is a play on "boomtown" and the name of the web conferencing software program Zoom. People working remotely while living in Zoom Towns have the opportunity to enjoy family activities after work like hiking, biking, and skiing.

If you'd like to check out one of America's most popular Zoom Towns up close, you can do so by attending the KBA's Annual Convention in Asheville, NC, in September. As one of America's most popular Zoom Towns, "the sun is shining brighter" than ever on the Zoom town of Asheville, North Carolina!

STRAIGHT TALK by Ballard Cassady
KBA President & CEO
bcassady@kybanks.com

Leaders Lead

As the KBA ends our fiscal year, we are coming out of the pandemic into a brave new world of business practices. Listen to the latest crop of ‘talking heads’ long enough and you’ll wonder if it’s time to burn all your policies and start over — though I’m not sure how you do that in an environment that feels like a landmine field of outrage over one thing or another.

But my gut tells me people are still…well…people. The fundamental instincts about people that have served you well in your life are worth trusting — and that’s never been harder to do. The best advice given to me on my first day in this job came from a banker known to all as General Beach. Just two words: leaders lead. With mounting pressure from all sides to follow (whatever is being preached from media pulpits), it takes guts to trust your own training and life experience in judging what’s best for your bank. You may find yourself out of step with whatever ‘inarguable truths’ are in fashion this week, and those who dictate such things will say nasty things about you.

I’m minding that a lot less after reading a book titled *The Madness of Crowds*, by a British guy named Douglas Murray. Murray analyzes the cultural changes swirling around us, the ones that have most of the people you know saying at least once a day, “This world has gone crazy!” He taught me a lot about the history of all these movements. (Murray is himself gay, with very personal insights into one of those movements.)

“Regulations pressure us to discriminate on the basis of many things. But discrimination on the basis of race? Besides being illegal, it’s stupid. Bankers can’t be stupid and stay in business, not during the decades I’ve been in their service.”

Most of these movements were founded for reasons most Americans truly respect. And Murray traces their consistent progress toward their stated goals, like a train approaching a station. But just on the verge of pulling into the station, the activists at the heart of the movement consistently derail the train and come up with new goals, again and again and again. Otherwise, they’d find themselves out of work — and never doubt it’s work that pays well. Just google Patrisse Khan-Cullors.

The problem is that full employment for activists comes at great cost to the rest of us. The rage and bitterness their tactics are calculated to stoke — in both the ‘oppressed’ and the ‘oppressors’ — are tearing apart the very things that all of us depend on for life, liberty and the pursuit of happiness. We’ve all seen who suffers most when that happens. And America’s enemies or ‘competitors? They’re delighted to see us attacking ourselves with ideologies as deadly as any virus.

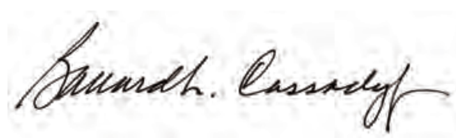
There’s no vaccine for this disease. There’s only reasoned, principled, courageous and far-sighted leadership — not to be confused with what is more truly “followship.” When the MLB yielded to activist noise and took the revenue from its All-Star game from a city with 51% minorities and gave it to one with 10% minorities (as a show of support to those same minorities), we saw followship in action. For a while now, I’ve been scanning the media for examples of leadership and followship. I see a lot more of the latter than the former, and that scares me as much as anything else on the evening news.

But I had a football coach who preached (right from the book of Nehemiah) how each of us is responsible for our piece of a given wall, whether that’s a wall around Jerusalem, a defensive line, or civic responsibility. So, I’ll let others worry about Major League Baseball. My focus needs to be on leadership in the banking industry, on the values and priorities my industry is prepared to defend against any and all comers.

Increasingly, I think, policies have become key expressions of values and priorities, a place to demonstrate virtues. Of those I’ve seen recently, a few stand out. Consider priorities like “driving inclusive and equitable economic growth,” “protecting consumers by ensuring a consistent regulatory approach,” and “supporting a dynamic banking industry.” When inevitable tensions arise in pursing those goals, who or what takes precedence — the banks that are your members, consumers, or whoever defines ‘inclusive and equitable growth’ in any given week? I do not envy a board those deliberations.

I’ve also seen “helping community banks flourish.” In my experience of bankers and as a banker for the first decade of my career, that policy also speaks to broader societal concerns. It reminds us that banks only flourish when their communities do, their ENTIRE communities. Personally, I’ve never seen a bank turn away a financially viable customer. That is not to say I’ve never seen discrimination in the dictionary sense of recognizing the difference between one thing and another. Regulations pressure us to discriminate on the basis of many things. But discrimination on the basis of race? Besides being illegal, it’s stupid. Bankers can’t be stupid and stay in business, not during the decades I’ve been in their service.

So, when the KBA speaks for the bankers who are its members, whether speaking through the KBA’s policies or in any other venue, we will take the risks that leaders have always had to take, the risk of offending someone. We will unequivocally defend our industry on the basis of what we witness every day and what we see as essential to its viability going forward. When that kind of leadership puts us on the wrong side of intellectual fashion, we will pay a price. But it won’t be as high as the price of followship, which — like the rents in New York City — is just “too damned high.”



MY TWO CENTS by Debra Stamper
KBA Executive Vice President & General Counsel
dstamper@kybanks.com

Will Central Bank Digital Currency Help Banks?

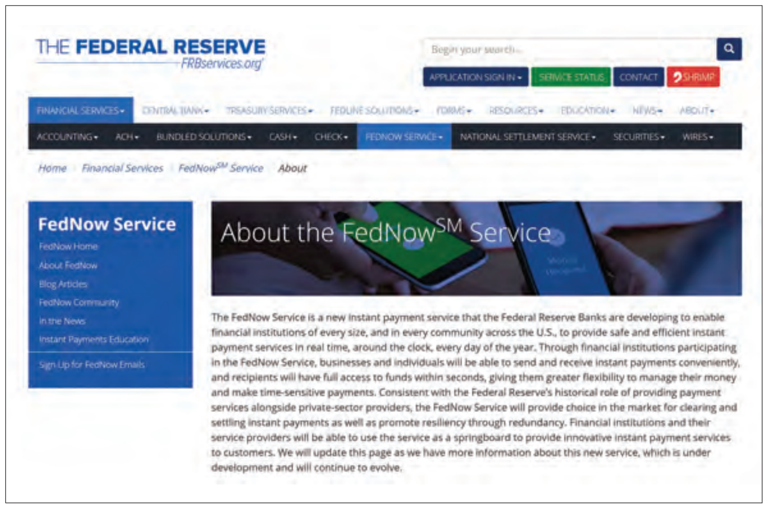
My last article addressed the "Wild, Wild West" of unsupported digital assets. But there is another consideration when you look at digital assets and that is central bank digital currency (CBDC).

CBDC is different than bitcoin and similar, independent digitized assets in that it is tied to an actual supported, stable value as a central bank (the Fed in our case) controls the value of the digital currency as part of the larger economic picture. China, most notably, and some other much smaller countries are already testing digital currencies in limited manners. The Fed is now considering whether there is a need for a CBDC in the United States and also whether it would harm the current banking system and/or the economy.

The first question the Fed is trying to answer is whether there is a need for a digital currency. How would a digital currency perform differently than the many online/phone application payment methods (such as Venmo, PayPal, Apple Pay) that individuals can use now? Well, for one thing, you would have to assume that a consumer using CBDC would not need to have a bank account. Just as with paper currency, the consumer would be or should be able to maintain, probably through a digital wallet protected with blockchain, CBDC and spend it directly with retailers or other consumers—the same as they would using paper currency. But some online/phone application payment methods have a lag time because of the communication between the app and the bank account where the money is stored. CBDC would and should eliminate any lag time, as it would be the same as using paper currency. Does that mean there is a need? Or, does the Fed's promised FedNow program take care of the real time concern.

FedNow is expected to be fully launched in 2023. It is expected to provide for a "real-time" payment settlement system, available 24/7. It seems to make more sense to give FedNow a chance for developed experience before starting a CBDC in the US. The FedNow system is being designed so that banks of all sizes can participate and determine their level of participation. A bank can "Send and Receive" payments in real time for their customers; the bank can opt to "Receive" only; a bank can participate in "Liquidity Management Transfers"; and/or use it for correspondent bank services.

You should read more at https://www.frbservices.org/financial-services/fednow/about.html to learn how your bank can prepare for and use FedNow for your customers and your success. Opponents to CBDC argue that it eliminates the need for traditional bank accounts, which will hurt the banking system by encouraging consumers to leave the traditional banking system and eliminating transaction processing performed through the banking system and eliminating fees associated with that.



Proponents say that CBDC will introduce the unbanked to the banking system. But will new companies develop to assist consumers with digital wallet capacity WITHOUT the need for a bank account. And, what happens if a consumer forgets the credentials needed to access the CBDC or if a hacker obtains access to the Fed's control?

This is much to think about.

Debra

Every year we report just how notable the legislative session has been for one reason or another and the 2021 Legislative Session is no different. With COVID-19 still a major concern, committee meetings were hybrid, using both remote and in-person participation. However, no live audience was allowed and individuals wishing to speak on issues raised were required to do so via technology or receive special permission to attend in person. Lobbying efforts were also restricted. Without open access to the Capitol and the annex, discussions with legislators were scheduled on zoom and/or conference calls. That resulted in a number of bills (not just banking bills) moving faster, or slower, than they would in a year when legislators were able to hear the full story. In addition, the General Assembly was primarily focused on COVID-19 issues, powers of the Governor during emergencies (and what constitutes an emergency) and the budget. Regardless, there were more than 1200 bills and resolutions drafted and 206 bills passed.

Bills that impact the banking industry are summarized below. Each bill, unless it contains an emergency clause will go into effect 90 days from the end of session, May 30. If you need more information on any of these bills, please contact Debra Stamper at dstamper@kybanks.com.

SB5 – COVID Liability.

SB5 is a tricky bill. It is designed to protect some businesses and all premises owners from liability for certain COVID-19 related claims occurring on or after March 6, 2020.

With regard to premises owners, SB5 protects them from liability "for any alleged injury, loss, or **damage to persons or property** arising from a COVID-19 claim" and expressly states that premises owners do not "owe a duty to protect from or warn about any risk related to or caused by COVID-19." In order to benefit from the protection of this law, the premises owner must follow "all orders and guidelines related to a COVID-19 declared emergency issued by the Governor or any state agency, the President of the United States or any federal agency or a local governmental agency" and "any specific guidelines related to a COVID-19 declared emergency adopted by a state agency that governs the industry." The protection of SB5 does not apply if the injury results from "gross negligence, or wanton, willful, malicious, or intentional misconduct."

The protection of essential service providers is slightly different. The bill lists a number of industries which are defined as "essential service providers." "Financial institutions" are included in that list. The express language of SB5 provides that essential service providers "shall not be liable for **any COVID-19 claim**," unless the essential service provider actions show "gross negligence, or wanton, willful, malicious, or intentional misconduct."

The difference between the protections provided for premises owners (**damage to persons or property**) and essential service providers **(any COVID-19 claim)** is significant because 'any claim' could include things like contract issues. SB5 is also interesting because it does not appear to protect businesses which are not either premises owners nor essential service providers. So, for example, a mall owner would be protected as a premises owner but the leasing business owners would not unless they were also essential.

SB5 is not likely to protect covered businesses/owners from all litigation, however, as the issue of whether the defendant acted in accordance with any executive order will be subject to debate, as well as the issue as to whether the defendant's actions were "gross negligence, or wanton, willful, malicious, or intentional misconduct."

SB11 – Criminal Damage to Rental Property. SB11 creates new categories of criminal mischief as follows:

"A person is guilty of criminal mischief in the first degree when, having no right to do so or any reasonable belief that he or she has such right, he or she …As a tenant, intentionally or wantonly defaces, destroys, or damages residential rental property causing pecuniary loss…" .

If the loss is $1000 or more, it is first degree; more than $500, but less than $1000, it is second degree; and less than $500 is third degree.

SB62 – Commercial Quadricycle. Provides that commercial quadricycles are not motor vehicles.

SB105 – Abandoned and Blighted Property.

This is a bill that has been discussed and negotiated for many sessions. It sets forth a process by which certain abandoned/blighted property can be rehabilitated and sold, or demolished and the real estate sold. The benefits to this type of legislation includes retention of neighboring property values and recovery of unpaid and future property taxes.

Under the language of the bill a property, which may be commercial or residential, may be designated as "abandoned and blighted" if three or more of the seven listed conditions can be established. Those seven conditions include unfit for use; noncompliance with code violations; material increase of fire risk; attractive nuisance, etc. Once established a conservator will be assigned by the court if the conservator prepares all necessary information, including a sworn statement that the property: has not been legally occupied in the last 12 months; has not been listed for sale in the last 60 days; is not currently in foreclosure; has been owned by the current owner for more than six months; and, **if subject to an outstanding mortgage, the lienholder has waived their right to stop the proceedings.** Further, lienholders must receive notice.

SB105 – Abandoned and Blighted Property. (continued)

The process by which abatement of issues is then taken is very specific and potentially very costly. There certainly may be times when a creditor is willing to get the loan out of its portfolio. But, even if a creditor waives their right to stop the proceedings, they may still participate in the notice and comment process of the conservator's plans.

Because funds will be needed to abate or destroy the property, it is unlikely that there will be sufficient fund to pay all lienholders in the order of priority established by the bill. Therefore, it is very important that bank staff and attorneys are aware of this new process and evaluate the benefits and costs of participation.

HB1 – Reopening the Economy.

This provides that any business, school, not-for-profit etc., may "remain open and fully operational for in-person services so long as it adopts an operating plan that:" meets or exceeds the least restrictive of CDC or executive guidance; fosters safety (including social distancing); posted at the physical entrance and on the website. There are other provisions regarding specific businesses unrelated to banking.

HB172 – Real Estate Appraisers Board.

Requires that investigators for the Board must have a general appraisers license and at least 5 years experience. Requires that complaints must be filed with the Board within 5 years of the transmittal of the appraisal or review OR within 2 years of a judicial disposition in which the appraiser provided testimony. (Does not apply to complaints that the appraiser was not qualified to render the appraisal or review).

HB210 – Mandated Adoption Leave.

Employers must allow the same benefits to newly adoptive parents of children under the age of ten as they allow to birth parents or, absent a birth benefit, no less than 6 weeks. This does not apply to certain adoptions by family members or foster parents.

HB231 – State Depositories.

Clarifies that all Kentucky chartered or national banks and thrifts are eligible state depositories if the Treasurer has not specifically designated a list of allowed state depositories. This bill further provides that the collateral pledged by state depositories must be sufficient to cover deposits in excess deposit insurance as valued on the last business day of each quarter. The list of acceptable collateral has been modified to include real estate owned by the state depository. State depositories may seek permission by the State Investment Commission to forgo collateralization by providing a surety bond covering 80% of the deposits not covered by FDIC insurance.

HB278 – Tax Treatment of PPP Loans.

Provides that state tax treatment of PPP loans will be consistent with the treatment of the same by federal law.

HB325 – Treatment of CBD Products.

Authorized CBD processors shall be treated by the state as food or cosmetic manufacturers. Their products must bear the specifically required labeling.

HB413 – Unemployment Insurance Trust.

For the years 2021 and 2022, this bill freezes the taxable wage base and tax rate to that of 2020, and provides that no surcharges will be assessed. Benefits paid because of the pandemic will be charged to the pooled funds and not to individual employers' reserve accounts.

HB435 – Notice of Claims Against Estates.

Repeals the statute of limitations that was passed last year (8 months) and returns it to that before 2020 (6 months after appointment of personal representative /2 years after death).

HB475 – State OSHA Laws and Regulations.

Kentucky laws and regulations may not be more restrictive than federal OSHA laws and regulations.

Town & Country Bank and Trust Co. Announces New President/CEO

Town & Country Bank and Trust Co. (TCBT) announced the appointment of David Greenwell as President and CEO of the Bank. Greenwell will replace retiring President and CEO Raffo Wimsett who has served in the position since April 2014.

Greenwell started his banking career at National City Bank in 2003 and joined TCBT as a lender in 2011. He served in various roles before being named to the Executive team as Chief Credit officer in April 2016. David Greenwell, a native of Bardstown, KY, earned his bachelor's degree in Management and Supervision from Saint Catharine College and holds his master's degree in Accountancy from the University of Phoenix. In 2019, he completed the Graduate School of Banking at Colorado's Executive Development Program for Community Bankers.

Board Chairman Steve Hamilton notes that "Raffo's inclusive, team-building style of management, coupled with his patience and diligence is a big part of the reason Town & Country Bank and Trust Co. has achieved market-leading performance the past several years. The board and I are excited that David will be leading our bank and continuing the tradition of excellence that has been the hallmark of Town & Country Bank and Trust Co. for well over a century."

Board Vice Chairman Bill Conway added that "we are very fortunate to have David Greenwell, a very sharp individual, on our team. He will be great at continuing the path of Town and Country Bank moving forward."

Mr. Conway also thanked Raffo for his years of service. "The Board of Directors, Shareholders, Employees and Customers are extremely grateful for the 38 years that Raffo dedicated to Town and

5 Tech Tips for the Hybrid Work Model

by Ben Lawrence, Managing Partner, Louisville Geek

After spending most of 2020 working from home, many leaders are wrestling with how to best transition workers back to the office. Recent studies indicate that most organizations are choosing a "hybrid" work model, which in most cases means working in the office a couple days each week. Coming to the office, even if only on a part-time basis, permits employees to gradually reinstate boundaries between work and home life, distinctions that perished for most people during the pandemic. Regardless of whether your organization is adopting a hybrid work model or bringing all employees back to the office, here are a few technology tips for your organization to consider as you prepare for post-pandemic work life.

1. Expect shipping delays for laptops and other hardware.

The demand for laptop and desktop computers surged in 2020 and supply chains have yet to catch up. Industry leaders say the worldwide global chip shortage will continue to have a severe impact on production capabilities until at least the first or second quarter of 2022. If your organization is planning to invest in new computers in the next two years, we recommend placing those orders ASAP (especially when ordering in bulk).

2. Create (or update) your cybersecurity incident plan.

Organizational security should be a core business focus, especially for the post-pandemic workplace. In early June, the White House warned American businesses to take urgent security measures to protect against ransomware attacks. The open letter urged companies to adopt many of the same defensive steps that it has recently required of federal agencies and companies conducting business with the government. These steps include employing a zero-trust security model, accelerating movement to secure cloud services and consistently deploying foundational security tools such as multifactor authentication and encryption. The full report can be found on the official White House Website.

Responding to a data breach is much like disarming a bomb: every second counts. In many cases, swift, decisive action can drastically mitigate the damage wrought by cybercriminals. Creating a cybersecurity plan involves identifying the key stakeholders and your IT assets, assessing your threats, cataloging your IT assets and creating a procedure to handle potential threats. Once the plan is created, it's important to test for vulnerabilities on a regular basis. While this exercise might not sound fun, having a plan in place can save your organization a world of pain.

3. Ensure your organization maintains OFFLINE backups.

When ransomware strikes, the malware can attack anything the infected system has access to, so keeping an offline backup can mitigate this risk. The main concept is that these backups should not be accessible from your network at all, if possible. If your backups are online, make sure access is not tied to a domain account and the system is as segmented as possible from the rest of the network.

4. Embrace Security Awareness Training.

Though mostly unintentional, human error is the main cause of cyber security incidents. But most organizations continue to invest almost exclusively on technology, not users, to ensure that phishing and spear-fishing attempts are detected before a user clicks on them. No employee wants to be the cause of a data breach but given that they are the last line of defense for any organization, they should be consistently trained on what to be on the lookout for and how to deal with potential threats. Most Security Awareness Training programs are entirely online and are very affordable (plans typically start around $2/month/user).

5. Continue investing in the right technology.

When the lockdowns began, organizations with the right technology in place were able to transition seamlessly, while organizations who were unprepared spent much of 2020 playing catchup. The pandemic accelerated the shift to a digital world, so business leaders should be very mindful of what technology investments they'll need in the future. For example, many small businesses who have traditionally purchased desktop computers for their employees are realizing that a laptop with multiple monitors offers more flexibility, particularly in a hybrid work model.

If the pandemic taught us anything, it's that our working environments need to be agile and flexible enough to allow employees to work and collaborate with colleagues and customers wherever they are based, while remaining secure and manageable. And, despite the lack of certainty over the past year and a half, this new permanence is one that business leaders can take to the bank (pun intended).

Graduate School of Banking at LSU Awards diplomas to KY Bankers

On June 2, 2021 one hundred twenty-nine bankers received graduation diplomas from the Graduate School of Banking at Louisiana State University. This three-year program provides courses covering all aspects of banking, economics and related subjects. Students traveled from twenty-one states to participate in this Session. Eleven bankers received diplomas from Kentucky:

GSB
GRADUATE SCHOOL OF BANKING
AT LOUISIANA STATE UNIVERSITY

Wesley Mark Barker	Farm Credit Mid-America	Crestwood	KY
Haley L. Clark	First National Bank	Brooksville	KY
Christopher W. French	Bank of the Bluegrass	Lexington	KY
Jonathan D. Goforth	The Citizens National	Somerset	KY
Nathaniel Dean Hamblin	Bank of the Bluegrass	Lexington	KY
Monica Lynn Hamilton	Shelter Insurance Comp	Campbellsville	KY
Michael Laxton	United Cumberland Bank	Whitley City	KY
Alan Lunsford	Kentucky Bank	Richmond	KY
LaNeika RaShay Skinner	Jackson County Bank	McKee	KY
Mark W. Sulski	Kentucky Bank	Georgetown	KY
Misha Jo Wilson	Farmers National Bank	Lebanon	KY

Sponsored by 15 southern state bankers associations in cooperation with the Division of Continuing Education at LSU, the banking school requires attendance on campus for three years, with extensive bank study assignments between sessions. The faculty consists of bankers, business and professional leaders, and educators from all parts of the U.S.

During their three summer sessions at the Graduate School of Banking, students receive 190 hours of classroom instruction, planned evening study, and final examinations at the end of each session.

Danny Coffey Retires from Hancock Bank & Trust Company

Hancock Bank & Trust Company announced the retirement of Danny Coffey from the bank and the banking industry. He has been in banking for over 37 years and has served the multiple communities he lived in and banks he worked for with a passion like no other.

"Saying he loved banking and people would be an understatement," said Claude R. Badgett, Hancock Bank & Trust's Chief Executive Officer.

Growing up on a small farm in Cumberland County, Danny's grandpa Coffey advised him to get a college education, come back home, and farm with him. He got two degrees from Western Kentucky University and studied agriculture, business, and economics. He never went home to farm.

Danny's career started with Farm Credit System in 1972. He worked in the Farm Credit System for 11 years and 8-plus banks since 1983, in mostly credit administration, executive management and Board member. Many of the banks he worked for had experienced management issues and loan losses which resulted in weakened financial conditions and certain formal agreements with various bank regulators to improve their management practices and personnel.

Danny was almost immediately thrown into the fire and knew right away what his calling was - fix troubled banks. He often said: "We need to focus on one issue at a time. We are wrestling alligators and if we try to fight all of them at once, we will die. We must take on the biggest alligator and move forward one at a time."

"That is exactly what we did, and because of this approach, Danny was able to turn around one more bank for the better before his retirement," added Badgett.

Danny said he has enjoyed every day he has been at Hancock Bank since 2013. It is said you never work if you enjoy what you do and the people you work with. Everyone who encountered Danny knew how laid back he was, and he was always pleasant to be around. He will be missed roaming the bank.

"Danny guided me into the person I am today," said Badgett. "I am extremely grateful for everything he did to teach me and help me grow as CEO of Hancock Bank. Danny will be missed but not forgotten. He has done many great things during his life, and it is time for him to enjoy the chapters after banking. He deserves it more than anyone I know. Thank you, Danny Coffey, for everything you have done. Best of luck in retirement!"

Danny Coffey

"Saying he loved banking and people would be an understatement."

Claude R. Badgett, Hancock Bank & Trust CEO

Resolution in Memoriam
Keith Radford
First & Farmers National Bank
Somerset, Kentucky

WHEREAS, Keith Radford passed away on February 6, 2021 and for over 75 years served his community as a banker, as a trusted community leader and as a friend for the benefit of everyone in Cumberland and Clinton Counties in Kentucky; and

WHEREAS, Mr. Radford a graduate of Lindsey Wilson College, a loyal supporting alumnae of that institution, and a devoted member of Parrish Chapel United Methodist Church, began his banking career at the Bank of Cumberland in Burkesville, Kentucky, later joining Citizens Bank of Albany, Kentucky where he rose to be a leader and member of its board of directors; and

WHEREAS, Mr. Radford's steadfast expertise, ability, and hard work, led to the growth and success of Citizens Bank of Albany and the growth of the businesses and farmers in the Lake Cumberland/Dale Hollow Lake areas; and

WHEREAS, Mr. Radford played a significant leadership role in the succession of Citizens Bank of Albany and the Bank of Cumberland eventually to become First and Farmers National Bank, and contributed to the vital steadfast management and success of its holding company Albany Bancorp, Inc. and;

WHEREAS, Mr. Radford'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 great sense of loss and appreciation for Mr. Radford's 28 years of service to Albany Bancorp as a member of the Board of Directors, as well as for his combined over 60 years of service as a Director of Citizens Bank of Albany and 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 25th day of March, 2021 and shall further be delivered to the family of Keith Radford, 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.

John G. Prather, Jr., Chairman

Steve U. Morgan

Ann Martin

Douglas Sapp

Charles Key

Pete Mahurin

Robert E. Moore, Jr.

William P. Turpen

Terry A. Pugh

COMPLIANCE CORNER with Timothy A. Schenk
KBA Assistant General Counsel
tschenk@kybanks.com

COMPLIANCE QUESTIONS & ANSWERS

The world is opening! While it may be coincidental, it appears that as we begin to interact more, so are the agencies that are issuing new guidance daily and sometimes hourly. With these changes come new questions. We wanted to share highlights of those discussions and answers. Please feel free to reach out to me at tschenk@kybanks.com with additional questions.

Q: Public deposits have been a huge issue for us along with working with our local governments on funds they have received through ARPA. We have an account open and properly collateralized in accordance with the public deposit statutes. However, we've heard conflicting reports on whether or not the funds can be in an interest-bearing account. Do you have any information regarding ARPA funds and interest-bearing accounts?

ARPA funds can be placed in an interest-bearing account. That does not mean they must be placed into an interest-bearing account, but they are eligible.

Limitations on ARPA funds are primarily on usage:

- States and territories may not use ARPA funding to directly or indirectly offset a reduction in net tax revenue.
- No deposits to pension funds.
- No funding debt service.
- No funding of legal settlements or judgments.
- No deposits into rainy day funds or financial reserves.
- General infrastructure spending is not covered as an eligible use outside of water, sewer, and broadband investments or for maintenance of infrastructure.

It also important to remember that with the passage of House Bill 231, public deposits must be placed in a "state depository," which is further defined as a "bank". Credit unions are not defined as "state depositories."

Q: I have a borrower who is using her father's primary residence as collateral for a HELOC. The father is not going to be on the note. Does the Reg Z right of rescission apply to the father? Is this exempt under the residential mortgage rule?

Yes. 12 CFR § 1026.23(a)(1) states:

> *In a credit transaction in which a security interest is or will be retained or acquired in a consumer's principal dwelling, each consumer whose ownership interest is or will be subject to the security interest shall have the right to rescind the transaction, except for transactions described in paragraph (f) of this section. For purposes of this section, the addition to an existing obligation of a security interest in a consumer's principal dwelling is a transaction. The right of rescission applies only to the addition of the security interest and not the existing obligation. The creditor shall deliver the notice required by paragraph (b) of this section but need not deliver new material disclosures. Delivery of the required notice shall begin the rescission period.*

The exemptions in 12 CFR § 1026.23(f)(1) include "residential mortgage transactions."

However, the official comment one (1) to 12 CFR § 1026.23(f)(1) states that the exemption only applies to, "Any transaction to construct or acquire a principal dwelling, whether considered real or personal property." This is not an acquisition or construction so the exemption would not apply.

Furthermore, the official comment five (5) to 12 CFR § 1026.23(a)(1) states:

> *Under § 1026.23(a), the addition of a security interest in a consumer's principal dwelling to an existing obligation is rescindable even if the existing obligation is not satisfied and replaced by a new obligation, and even if the existing obligation was previously exempt under § 1026.3(b). The right of rescission applies only to the added security interest, however, and not to the original obligation. In those situations, only the § 1026.23(b) notice need be delivered, not new material disclosures; the rescission period will begin to run from the delivery of the notice.*

Consequently, the right of rescission does apply to the father. It is also important to remember that it is considered a best practice to provide all disclosures to the father that are prepared for the borrower. Otherwise, there is risk that the father may not have received enough information to adequately assess his right of rescission.

Q: I have a couples of questions about Powers of Attorney, I know that state law regarding Power of Attorneys have changed a few times within the past few years, and at one time there was a requirement that it be recorded. Are Power of Attorneys required now to be recorded? Can we, as a bank, require them to be recorded, even if state law does not require it?

Powers of attorney are not required to be recorded in Kentucky. In fact, you cannot legally require a power of attorney to be recorded under the new law if the power of attorney meets the validity requirements of KRS § 457.060. You must accept the power of attorney if it meets those requirements.

There were a number of changes effective as of July 15, 2020. Witnesses are no longer required (regardless of the execution date of the POA). However, under the revised KRS § 457.050, you do want it notarized. This provides you with a presumption of validity.

With the revisions from July 15, 2020, KRS 457.310 is a new section that creates specific default bank powers. Those powers can be modified through the terms of the power of attorney but KRS § 457.310 now creates the presumption that a power of attorney has those powers unless otherwise limited or enumerated. Default powers include, but are not limited to, making "banking arrangements" on the principal's behalf, receiving bank statements and authorizing credit transactions. It is a good idea to familiarize yourself with these powers and be able to recognize when a power of attorney contains terms differing from the default provisions.

It is also important to remember that there is a statutory form power of attorney located in KRS 457.220 which is available for the general public to use.

Resolution in Memoriam
Ralph C. Eaton
First & Farmers National Bank
Somerset, Kentucky

WHEREAS, Ralph C. Eaton passed away on February 25, 2021 and for over 50 years as a businessman and community leader, through his compassion and leadership made Morgantown, Kentucky a better place to live; and

WHEREAS, after graduating valedictorian of his high school class and attending Cumberland College and graduating from The Medical Technical School of Louisville, Kentucky, Mr. Eaton began his working career as a noted certified technician working in the laboratory and x-ray departments for 22 years and received national recognition from the Saturday Evening Post for his laboratory work in the office of Dr. Miller of Morgantown, Kentucky; and

WHEREAS, Mr. Eaton served his country in the United States Army from 1953 to 1955 achieving the rank of Corporal E-5; and

WHEREAS, Mr. Eaton continued to serve his community of Morgantown, Kentucky as a young interim mayor of the town, as well as President of the Jaycees; and

WHEREAS, Mr. Eaton was a major owner and the Administrator of Lake View Nursing Home in Morgantown for 30 years, providing not only valuable employment to the community, but also providing needed care for the elderly and most vulnerable citizens of his community; and

WHEREAS, Mr. Eaton's steadfast leadership, intelligence, wit, and hard work, benefited the business and banking community of South Central Kentucky, culminating in his being inducted into the Hall of Fame Café of Morgantown and the award of a Kentucky Colonels certificate by former State Representative Woody Allen; and

WHEREAS, Mr. Eaton played a leadership role in the success of First & Farmers National Bank and was a founding member of its holding company Albany Bancorp, Inc., serving for over 20 years ; and

WHEREAS, Mr. Eaton'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 great sense of loss and appreciation for Mr. Eaton's 25 years of service to Albany Bancorp as a member of the Board of Directors, as well as for his support of 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 25th day of March, 2021 and shall further be delivered to the family of Ralph C. Eaton, 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.

Douglas Sapp
Douglas Sapp, Chairman

Steve U. Morgan

Ann Martin
Ann Martin

John G. Prather, Jr.

Charles Key
Charles Key

Pete Mahurin
Pete Mahurin

Robert E. Moore
Robert E. Moore, Jr.

William P. Turpen

Terry A. Pugh
Terry A. Pugh

Ask a Risk Manager:
How Can Risk Management & Compliance Work Together

by Michael Berman, Founder & CEO
KBA Endorsed Vendor Ncontracts

How can risk management and compliance work together as partners at a financial institution? There's no one better to ask than someone who has worn both of those hats.

Enter Denise Guira, senior vice president of integrated risk at $5.2 billion MIDFLORIDA Credit Union in Lakeland, Florida. Denise spent 17 years in compliance before transitioning to risk management in 2017, giving her keen insights into how risk management and compliance can support each other.

She shared these insights in a recent episode of the Ncast podcast, talking with Ncontracts Vice President of Compliance Stephanie Lyon about what it takes to really integrate risk and compliance management. (You can listen to this episode, or any of our podcasts featuring industry experts, anytime on-demand.)

Here's an edited excerpt of that conversation.

Stephanie Lyon: How do you define a risk-based approach to compliance?

Denise Guira: I would say it's the only path forward. Risk and compliance work in tandem. It's one of the seven categories of risk as far as the NCUA is concerned, so I feel like it's kind of the foundation and the lowest-hanging fruit, especially if you're new to this risk environment. It's the easiest path forward to try to get some traction in your risk program and start evaluating risk at your organization.

I would also say that compliance is probably the most listened-to risk in the organization. When you talk about other types of risks, they're kind of subjective in nature. You can sit around the table and have a discussion where people can say "That's within my tolerance, we want to take that risk." When you get to compliance, it's very black and white. It's very easy to say "This is an acceptable risk" or "This is not an acceptable risk."

Compliance risk is easy for people to understand. They've been dealing with it for a very long period of time, so it's an easy place to start.

Stephanie: We've been hearing a lot about enterprise risk management (ERM), and you said compliance has been around forever. How do you compile the two into one?

Denise: You should really use compliance as a tool when you take a look at your ERM landscape. There are so many different options and ways that you can take that program within your organization. Using compliance as a road map, especially when you're just getting started, shows you where you want to have those focuses and where you want to set strategic pillars.

We just went through this over the past couple of years. We sat down, put all of our processes on paper, and then tried to correlate them against regulation and then our products and services. The next thing you know, I'm looking at the list of 600 and 700 different things.

Where am I going with this and what am I going to do as far as board reporting is concerned? What am I going to do as far as really creating a risk narrative that is not overwhelming and really makes sense to everyone?

The best way to start to evaluate the risk exposure of compliance is to take a look at all those regulations and see where your violations are, what type of lending products you have, what complaints you have out there in the marketplace, and what kind of procedures you have. What does fair lending look like in your organization? Processes like fair lending that have such a big impact to the organization have so many different components that really relate to risk.

Evaluating these areas will make you feel better as a risk practitioner because it will give you confidence in your organization's practices. If you go through that process, take a look at those procedures, and start really evaluating the seven concentrations of risk, you can say OK, my bank has got this.

You can use compliance as a tool to really figure out where your bank is and use it as the barometer to figure out where you need to set your focus.

continued on the next page

Stephanie: You mentioned fair lending. We know that fair lending is made up of a lot of regulations and guidance. How much compliance knowledge do you feel a risk manager has to have to effectively manage compliance?

Denise: You have to decide what your environment looks like. Do you have a dedicated compliance department? What is that compliance department comprised of? How many employees? What's their background? How much education do they have? What is your company's culture in relation with risk?

We're the consulting body. We get to come in and say, "You can accept the risk or not. This is your business unit's decision." It allows you to be able to have purposeful and educational conversations.

I was a compliance officer for 17 years before I moved into risk and that knowledge serves me incredibly well. Do you need 17 years of knowledge to be able to be a risk practitioner? No. But if you have someone like that in your compliance department, be friends with that person. Leverage the resources that are out there. Partner with great partners like Ncontracts that hire incredibly intelligent people. Read and learn and take a look at the different things that are out there from a risk standpoint. Compliance is going to say this is what the regulations say black and white. Their role is 100% adherence with zero risk tolerance.

You get to have a different conversation. You get to say this is what the rules of the playground are. We're okay that there's glass in this sandbox and this slide has been in the sun for days and it's really hot. These are the ways that we can play and keep safe.

Stephanie: How do you feel a risk manager can help compliance effectively communicate the importance of compliance?

Denise: The best way to help that risk and compliance conversation is by being a partner to compliance. People are more willing to let you come to their lunch table than compliance.

I was having a conversation with a member of the management team in my organization, and he equated me to that character from Monsters Inc. who is always asking about paperwork. I get to have those kinds of tongue-in-cheek conversations where he knows that I'm going to keep him protected. He knows that my role is to tell him where those traps are in the playground but not to keep him from playing.

Sometimes compliance can really fall into that Chicken Little trap where the sky is falling. We can really help facilitate an understanding of "This is what compliance is saying. Here's what it means for our organization."

For more insights from Denise, including the role of internal committees in creating a culture of risk and compliance management, listen to the Ncast.

Michael Berman is the founder and CEO of Ncontracts, a leading provider of risk management solutions. His extensive background in legal and regulatory matters has afforded him unique insights into solving operational risk management challenges and drives Ncontracts' mission to efficiently and effectively manage operational risk. During his legal career, Mr. Berman was involved in numerous regulatory, compliance, and contract management challenges and assisted in the development of information systems to better manage these efforts. Prior to founding Ncontracts, he was General Counsel for Goldleaf Financial Solutions, Tecniflex, Inc. and Imagic Corporation. Mr. Berman is a well-regarded speaker at financial institution conferences on risk management. He received his undergraduate degree from Cornell University and holds a J.D. degree from the University of Tennessee.

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Jonathan Welty
Executive Vice President
614.561.9356
JWelty@occh.org

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Kentucky Bankers Association

Our wealth as an Association is in the people who serve you.

KBA STAFF PROFILE

Timothy A. Schenk

Assistant General Counsel

How long have you been with the KBA? 2 and ½ years

How do you like working at the KBA? I love it!

Hometown: Louisville, Kentucky

College: University of Kentucky, BA in Business Administration and Juris Doctor

Family (pictured at right): Claire, Ricky (6), Meredith (2)

Teams he roots for: University of Louisville, Philadelphia 76ers, Eagles and Phillies

Hobbies: Martial Arts, Outdoors, Coaching Youth Sports, duPont Manual High School Crimson Mission

Favorite movie: Watching Avengers Endgame with my son.

Favorite quote: *"Some people want it to happen, some wish it would happen, others make it happen."* - Michael Jordan

What did 2020 and the pandemic teach you?
That perseverance shows in hard times and those that continue to press forward succeed.

What is your favorite KBA memory?

My favorite memory at the KBA was returning to group meetings after many of the restrictions related to Covid-19 were lifted. While the pandemic helped us realize many of the efficiencies of communicating remotely, seeing bankers in-person and being able to shake hands again was surreal. As we all scrambled to readjust to in-person interaction, sitting down to lunch, breakfast and dinner with bankers and discussing life outside of banking was an experience I will forever cherish.

Tim writes the Compliance Corner column in each Kentucky Banker magazine; go to page 20 to read this issue's compliance questions and answers. You can email Tim directly if you have any compliance questions: tschenk@kybanks.com

Promontory MortgagePath Adds Industrial Bank, Optus Bank as First MDIs, CDFIs in Its Minority-Owned Financial Institution Initiative

Promontory MortgagePath LLC, KBA Endorsed Venor and a leading provider of comprehensive digital mortgage fulfillment services, announced Industrial Bank and Optus Bank as the first participants in its initiative to support community development financial institutions (CDFIs) and minority depository institutions (MDIs). The initiative is focused on expanding mortgage credit access in underserved communities. Washington D.C.-based Industrial Bank, a U.S. Treasury-certified CDFI and the oldest Black-owned commercial bank in the Mid-Atlantic region, is fully onboarded and began offering mortgages via Promontory MortgagePath's platform in April. South Carolina-based Optus Bank, a federally-designated MDI and U.S. Treasury-certified CDFI, is in implementation.

"Industrial Bank has been committed to helping families in our communities purchase homes, grow small businesses, and build wealth since 1934," said Industrial Bank President and CEO Doyle Mitchell. "Our partnership with Promontory MortgagePath will mean more people in our community will be able to purchase homes — the most important pillar to closing the wealth gap."

"For more than 100 years, Optus Bank has been fighting to counter racial disparities. We strive to build wealth for all customers, with a special focus on those impacted by the 400-year legacy of exploitation and racism," said Optus Bank President and CEO Dominik Mjartan. "Together with Promontory MortgagePath, our goal to create $100 million in Black wealth over the next 10 years is more attainable."

Promontory MortgagePath's program offers exclusive pricing, resources and joint marketing opportunities to participating institutions. These services help lower the barriers to entry into mortgage lending and allow these institutions to participate in the mortgage market profitably, with the overall goal of helping build long-term wealth in communities through increased homeownership. Participating institutions also gain access to Promontory MortgagePath's point-of-sale platform Borrower Wallet®, technology-driven, U.S.-based mortgage fulfillment services and compliance support to accelerate their entry into the market and delivery of mortgage services. As a Community Development Bankers Association (CDBA) endorsed solution, Promontory MortgagePath is working with the CDBA to identify strategic partners to participate in the initiative.

Promontory MortgagePath founder and CEO and former Comptroller of the Currency Gene Ludwig has been focused throughout his career on access to responsible credit and other mechanisms to give families a hand up.

"We are proud to support Industrial and Optus banks in driving homeownership in their communities," Ludwig said. "These community-focused financial institutions are the lifeblood of wealth-building opportunities for the customers they serve. CDFIs and MDIs are a critical component to addressing big societal issues — from unemployment to wage stagnation — facing so many communities. These problems are more acute for Americans of color. And this is why Promontory MortgagePath is such a supporter of these banks."

Ludwig is also the chair of The Ludwig Institute for Economic Prosperity, which is focused on the plight of lower- and middle-income Americans. Part of this effort is to shine a light on economic indicators, like unemployment and wages, that do not give an accurate view into the real economic situation of these Americans.

MDIs or CDFIs interested in learning more about becoming strategic partners in this initiative should contact Promontory MortgagePath Managing Director and Head of Bank Relations Paul Katz at paul.katz@mortgagepath.com.

KBA Endorsed Vendor, Promontory MortgagePath, is a fast-growing team of passionate problem solvers on a mission to fundamentally change the way lenders approach their mortgage business. The company combines an intuitive, collaborative digital mortgage platform with modern, comprehensive fulfillment services, giving lenders the progressive technology and scalability required to profitably compete in today's rapidly changing residential mortgage market. Promontory MortgagePath's founder, former U.S. Comptroller of the Currency Gene Ludwig, is widely recognized as a visionary thinker on the critical issues confronting financial services, and his companies are renowned for helping community lenders resolve their most pressing challenges. To learn more, visit https://www.mortgagepath.com.

FOR MORE INFORMATION
CONTACT | Selina Parrish
Director of Membership
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Good Things Come to Those Who Wait: Interagency Proposed Flood Q&As

by Elizabeth K. Madlem, Vice President of Compliance Operations and Deputy General Counsel, Compliance Alliance

The Agencies (OCC, FRB, FDIC, FCA and NCUA) have recently proposed revisions to the Interagency Questions and Answers Regarding Flood Insurance. The purpose of this proposal is to supplement the July 2020 proposed Q&As which only contained two proposed questions on private flood insurance. These new proposed Q&As are formulated based off questions received by the Agencies regarding private flood insurance rules that went into effect July 1, 2019 and include 24 proposed Q&As on private flood insurance.

In attempts to provide additional clarify on requirements, the proposed Q&As use the term "Act" in reference to the National Flood Insurance Act of 1968 (NFIA) and the Flood Disaster Protection Act of 1973 (FDPA), as well as "Regulation," to refer to each Agency's current flood insurance rule.

The new proposed Q&As are divided into three main categories regarding private flood insurance:

1. Mandatory Acceptance (9 proposed Q&As)
2. Discretionary Acceptance (4 proposed Q&As)
3. General Compliance (11 proposed Q&As)

So, what does this mean for financial institutions?

Mandatory Acceptance Key Takeaways

Anytime renewals, or when a borrower presents a new private flood insurance policy regardless of whether a MIRE event occurred (making, increasing, renewing, or extending of a loan), the lender is required to review the policy to determine if it meets the mandatory purchase criteria. If it does not, the lender may still accept the policy if it meets the discretionary acceptance criteria. If a lender has a policy to not originate mortgage loans in nonparticipating communities or coastal barrier regions where NFIP is not available, private flood insurance requirements are not going to require the lender to change its policy.

Lenders are not required to accept private flood insurance policies solely because the policy contains the compliance aid assurance clause when the lender reviews it and determines the policy actually does not meet the mandatory acceptance requirements. But that does not alleviate the lender from reviewing a policy that does not contain the compliance aid assurance clause to determine whether it meets the requirements for private flood insurance before rejecting the policy. The policy must contains the compliance aid assurance clause language in the policy or an addendum before the bank accepts without conducting a review. Even if that is true, the lender must still ensure that the coverage is at least equal to the lesser of the outstanding principal balance of the loan or the maximum amount of the coverage available under the Act for the type of property and that other key aspects of the policy are accurate, like the borrower's name and address.

Lastly, if a policy lacks the compliance aid assurance clause, the lender is still free to review the policy to determine if it meets the criteria under discretionary acceptance from the Regulation. But it must still determine, even if the policy does not meet the requirement for discretionary acceptance, whether they are still required to accept under mandatory acceptance.

Discretionary Acceptance Key Takeaways

Under the discretionary acceptance test, lenders must evaluate the sufficiency of the insurer's solvency, strength, and ability to satisfy claims under general safety and soundness principles. They may obtain information from a State insurance regulator for the State in which the property is located and rely on licensing and other processes used by the State insurance regulator for such an evaluation.

Additionally, if a lender has previously accepted a private flood insurance policy under the discretionary acceptance requirements and that policy is renewed, the lender still must review the policy to ensure it continues to meet the discretionary acceptance requirements. A conclusion to this fact must be documented in writing.

General Compliance Key Takeaways

There are additional requirements when it comes to mandatory acceptance or discretionary acceptance and deductibles when it comes to coverage amounts exceeding or not exceeding the amount available under the NFIP. Additionally, lenders are not prohibited when using a third party to review private flood insurance policies from charging a fee to the borrower. Disclosure requirements regarding the fee do come into play, however.

If a declarations page provides enough information for the lender to make a determine on mandatory or discretionary acceptance, or if the declarations page contains the compliance aid assurance clause, lenders are free to rely on the declarations page to determine if the policy complies with the Regulation but should request additional information about the policy if not able to make that determination. Lastly, servicers must comply with the Regulation as well when determining whether private flood insurance may be accepted under the mandatory or discretionary acceptance provisions if the lender is supervised by the Agencies.

Comments for these new proposals are due May 17, 2021.

Veronica Keown Celebrates 50 Years at Morgantown Bank & Trust

Morgantown BANK & TRUST
EASY TO TALK TO. EASY TO TRUST.

Keown Will Retire Later in the Year

Morgantown Bank & Trust (MB&T) announced the 50th anniversary of Veronica Keown. Veronica, a Morgantown native, began her tenure with MB&T on May 20, 1971.

She has held multiple positions within the organization including Teller, Bookkeeping Clerk, Customer Service Representative, Loan Officer and Branch Manager. She currently serves as Vice President and Trust Officer, and will retire later this year.

Reflecting on her time at MB&T Veronica said: "I can honestly say I have never dreaded coming to work. It has been a joy to serve our customers for 50 years."

IN MEMORIAM

CHARLES BASCUM SMITH, JR.

DIRECTOR
FIRST NATIONAL BANK AND
FIRST BANCORP, INC.
RUSSELL SPRINGS, KENTUCKY

WHEREAS, the Board of Directors of First National Bank and First Bancorp, Inc. express our deepest respect and sympathy on the death of our associate and friend, Charles Bascum Smith, Jr., on May 17, 2021. The Board of Directors of First National Bank and First Bancorp, Inc. has indeed experienced the loss of an associate whose knowledge and foresight will be greatly missed and whose contributions to the organization will always be remembered. We are witnesses to a life well lived and to his accomplishments and the manner in which he has touched each and everyone around him. He was truly a friend to all; and

WHEREAS, Mr. Smith became associated with the Bank in 2010 as a member of the Board of Directors. His years of dedicated service, guidance, and counsel won for him the honor and esteem of those who knew him, and his service and dedication to this institution will be missed.

NOW THEREFORE BE IT RESOLVED, that First National Bank and First Bancorp, Inc. through its Board of Directors, does hereby extend its deepest sympathy to Mr. Smith's family and acknowledges to them our thanks and gratitude for his devoted service and numerous contributions to First National Bank Russell Springs, First Bancorp, Inc. and Russell County. Mr. Smith was well thought of across the state of Kentucky and beyond through his association with Smithland Angus Farms, the Kentucky Angus Association, being a past president of the American Angus Association, and other organizations.

BE IT FURTHER RESOLVED that a copy of this Resolution be published in *The Kentucky Banker* and a copy be presented to the family of Mr. Smith as a reminder of the high esteem in which he was held by those associated with him.

This Resolution unanimously adopted by the Board of Directors of First National Bank, Russell Springs, Kentucky this 25th day of May, 2021.

SECRETARY

James T. Wilson
CHAIRMAN

JOINT RESOLUTION OF THE BOARDS OF DIRECTORS OF COMMUNITY TRUST BANCORP, INC. AND COMMUNITY TRUST BANK, INC.

***WHEREAS*, Nick Carter** became a Member of the Board of Directors of Community Trust Bancorp, Inc. on December 4, 2008, when it had total assets of $2.9 billion; and

WHEREAS, on this date Nick has retired as a Member of the Board of Directors of Community Trust Bancorp, Inc. which now has assets of $5.1 billion; and

WHEREAS, through his 12 years of service to this Institution, at every opportunity Nick has been a strong advocate for our Institution which has advanced its success and strengthened its presence throughout the regions it serves; and

WHEREAS, the Boards of Directors of Community Trust Bancorp, Inc. and Community Trust Bank, Inc. wish to express their gratitude for Nick's long and faithful service, dedication, hard work, friendship and devotion.

THEREFORE, BE IT RESOLVED BY THE BOARDS OF DIRECTORS OF COMMUNITY TRUST BANCORP, INC. AND COMMUNITY TRUST BANK, INC. AS FOLLOWS:

1. That the retirement of Nick Carter is acknowledged and accepted with regret;

2. That Nick's leadership, good advice and counsel will be greatly missed and his continued devotion and loyalty to our Institution will continue to be appreciated;

3. That we wish Nick the best of health and happiness in the years to come and may God continue to watch over him;

4. That a copy of this Resolution be placed in the minutes of Community Trust Bancorp, Inc. and Community Trust Bank, Inc., with a copy to be given to our dear friend.

ADOPTED this 26th day of April, 2021.

COMMUNITY TRUST BANCORP, INC.

BY: Dean R. Hale

ATTEST: Mark A. Gooch

Secretary

COMMUNITY TRUST BANK, INC.

BY: Mark A. Gooch

ATTEST:

Marilyn T. Justice

Secretary

The Loyalty Factor: Translating Relationships into Non-Interest Income

by Achim Griesel and Sean Payant, Haberfeld

2020 has challenged our industry in ways previously unknown. We began the year expecting our biggest challenge would be continued growth of deposits at reasonable rates. Today, we are faced with three challenges: a prolonged low-rate environment with continued margin compression, the challenge of keeping branches open and serving our communities, and an increasing number of customer transactions moving to the digital arena.

Much has been written lately regarding the validity of the branch in the current environment. Has community banking been changed forever based on consumers' digital behaviors? Possibly. Is some of this for the best? Definitely. Does the branch still have value? Absolutely! Community banking is about community support. It's about being present and accessible. Unless your strategic plan is to shutter your branches and vacate your communities, we encourage you to keep reading.

Margin compression is real. So, what can you do? You can offset a portion of it by shifting your deposit mix toward low- or non-interest-bearing deposits. Adding long-term, low-rate deposit relationships should always be the foundation of any strategy, and community bank data shows your branches are the key to shifting your deposit mix.

While new core relationships are strategic in managing and maintaining your margins, they are also a key driver of additional non-interest-income (NII); this is a critical component in the shorter term. Financial institutions must increase their NII to offset some of the challenges on the interest income/margin side. To accomplish growing those new relationship you must do three things.

1) Bring more new customer relationships into your organization
2) Serve all of your customers better than any other financial institution has previously
3) Make them loyal customers by increasing relational intensity over time

The Loyalty Factor

Bringing in more relationships should be data driven, and the data shows the checking account and the branches are key. Looking at data from over 100 community-based financial institutions, and over 2.5 million households/businesses illustrate this point.

The vast majority, or 72%, of consumer and business relationships at community financial institutions begin with a checking account. In other words, the checking account provides the best opportunity to create customer loyalty; it is the gateway to primary financial institution status (PFI), allowing your bank first right of refusal on other products and services 68% of the time. In addition, customers who have their checking account with your bank outpace other customers when it comes to products and services, generating additional NII.

Even during the pandemic, and with limited access to community-based financial institutions branch networks, client data shows over 90% of new PFI relationships have come through branch channels (in-person, appointments, drive-thru, telephone). The value of your branches cannot be ignored.

The more customer loyalty you build, the more interest income and NII they generate. With consumer and business customers having almost six products and services with their primary financial institution – the math works. Most importantly, the more loyal customers you have, the better your bank will perform now and in the future.

Segmenting data from several million customers based on their tenure with the community financial institution shows that loyal customers, over their lifetime, generate dramatically more NII.

In addition, annual NII contribution peaks once customers have been with their PFI for a few years. Further analysis of the data explains why the checking account revenue stream does not continue to grow. It is driven by customer age demographics. In general, more mature customers tend to drive more checking deposits than checking NII.

Creating Loyalty

In order to create loyalty, it is imperative your organization be positioned to capture new customers when they are ready to switch. The data shows that up to 12% of current retail and business customers are consistently switching financial institutions. A recent study published by The Financial Brand indicated this number could be as high as 22% post-COVID, driven primarily by the failures of the big banks to adequately serve customers during the pandemic.

So how do you position your organization for growth?

1) Checking Product: You need to get your checking product right. Confusing product does not create value, and in turn, develop customer loyalty.

2) Processes: It is imperative you remove barriers. Your account opening polices and customer identification program (CIP) practices often inhibit growth rather than encouraging it. Read them for yourself.

3) Promotion: Community financial institutions have an audience that needs to be maximized and then optimized within a defined footprint. If your bank isn't using targeted, data-driven print and digital marketing to grow PFI customers, you are missing too many growth opportunities.

4) People: Your team must be equipped with the skills and the product knowledge to develop true relationships with customers – customer loyalty is created through customer connections.

continued: The Loyalty Factor

The Bottom Line

1) To create loyalty, you have to get the new customer first
2) The checking account is the key to the PFI relationship
3) Once you have them, products, processes, promotion and people move than up the loyalty ladder
4) The longer customers stay the more they will contribute
5) You can do things to accelerate that growth
6) Customers are not all the same. You must understand their lifecycle journey with your bank

As with any strategy, there is no silver bullet, but rather, your bank should be looking for a long-term, loyalty payoff.

Achim Griesel (left) is president and Dr. Sean Payant (right) serves as the Chief Strategy Officer at Haberfeld, a data-driven consulting firm specializing in core relationships and profitability growth for community-based financial institutions. Achim can be reached at 402.323.3793 or achim@haberfeld.com. Sean can be reached at 402.323.3614 or sean@haberfeld.com.