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New Mexico Bankers Digest

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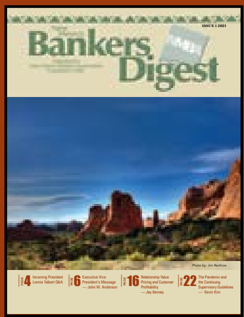


Our Mission

The mission of the New Mexico Bankers Association (NMBA) is to serve member bank needs by acting as New Mexico banking's representative to government, the public, and the industry; providing resources, education and information to enhance the opportunities for success in banking; promoting unity within the industry on common issues; and seeking to improve the regulatory climate to the end that banks can profitably compete in the providing of financial and related products and services.

INCOMING PRESIDENT LONNIE TALBERT Q&A

LONNIE TALBERT
NMBA INCOMING PRESIDENT

The best part about being a community banker is the ability to make a difference in the lives of our customers and employees.

How did you get started in the banking industry?

I graduated from college in 1986 and then took some time off to travel, bartend and work various jobs to pay the rent. As most college students do, I had student loans to pay off. In 1989, about three years after graduation, I started my career in financial services as an account executive at HFC.

Believe it or not, I was working on a Saturday at Doc and Eddy's, and the branch manager and assistant branch manager at the local HFC called in for a lunch order. I took the order and started up a conversation. As they say, "the rest is history." I was interviewed and hired to work in St Louis, Missouri. It was my first real career job and was an amazing training experience. As you can imagine, in 1989 and early 1990s, interest rates were nowhere near the historic lows we see now, so it was commonplace to make consumer unsecured loans and pay off first mortgages at rates in double digits. It was a lot of fun calling on customers and helping them get their financial lives in order. Our customers were looking for quick decision-making and low payments without the hassle of going into a traditional bank. I was proud of what we did to help our customers. I know the finance company industry was considered second or third to banking, but each time I helped a customer get their financial health in order, there was a lot of satisfaction.

Over the next 20 years, I continued to work for both HFC and Citibank learning all about financial services, but not really community banking and its impact on business. I moved to New Mexico while working for Citibank and then landed with First Community Bank in 2007. I was so excited to finally get to work with a true community bank and see the impact of lending to New Mexico businesses and investing in the community.

Unfortunately, four years later, we know how this chapter ended. But I learned so much, and even though the outcome was not what any of us wanted, the lessons learned have helped me be the banker I am now, as president and COO for Southwest Capital Bank.

What has been the best part of being a banker?

The best part about being a community banker is the ability to make a difference in the lives of our customers and employees. As a community banker, you get to make decisions daily, which can immediately be put into action. I have always enjoyed the people aspect of banking, working closely with our employees and customers and giving back to the communities we serve. Being able to help set the strategic course of the bank and then work with our team to execute this vision is extremely rewarding.

What changes do you foresee in our industry and in New Mexico in the next five years?

I believe, unfortunately, we will continue to see consolidation in the community banking space. Several community banks, which are either family-owned or whose shareholders are looking for an exit strategy, will be forced to merge or sell to satisfy their shareholders. I also think we will see faster payments and a move to a more digitized approach to banking. COVID-19 has changed the game due to banks closing their lobbies to customers for extended periods, numerous workers working from home, and an accelerated push to electronic banking. Younger customers are not opening bank accounts in a branch and want to do everything on their phone or laptop. I also think we will see a hiring challenge for experienced bankers as the old-school traditional banker will soon age out and retire.

Specifically, in New Mexico, full-service community banks will make difficult decisions to try and hire up and compete or throw in the towel and sell. I sure hope New Mexico will not see a state bank in the future; however, with our state 100% one-party government, the chance is greater than any other time.

Do you have any advice for young bankers?

Look, listen and learn. It sounds so simple; however, younger bankers can truly build a career in banking if they are patient and willing to gain the experience necessary to succeed long-term. In addition, the older bankers need to be willing to mentor and challenge the younger bankers and trust them to do the right thing. I have enjoyed my 32 years in financial services and am grateful to all who helped me along the way. I feel it is our duty to pay it forward with the new generation of bankers and ensure our knowledge and experience is passed on.

Please tell us about your family.

I have an amazing family.

My wife, Robin Brule, is an awesome wife and partner. She is always supporting me and is much more impactful in the community with her work than I could ever be. She is a senior director with Filene Research Institute. Their motto is "Changing lives through innovation, truth and cooperation."

We have three great adult children:

- Michael is a doctor at Loyola Hospital in Chicago.
- Emma is a technical business development specialist with Sandia National Labs, here in Albuquerque.
- AnnaGrace is a Music Business senior at Belmont University in Nashville, Tennessee.

In addition, we have two dogs and two cats.

What are your interests outside of banking?

Robin and I love to travel. We also like to binge-watch silly reality TV and escape by going to the movies, although that has been on hold now for the year and a half since the pandemic started. We used to love going to Flix Brewhouse back when it was open. Now, unfortunately, it has closed.

You served as a Bernalillo County Commissioner for several years. How rewarding was that experience, and how did you balance your day job as a banker with your commissioner duties?

It was such an honor to hold an elected office as a Bernalillo County Commissioner. When I decided to run for office, my goal was to keep my career in banking and serve the constituents of District 4. I was able to do this for eight years and was elected Chair of the Bernalillo County Commission my last year. The county commissioner role was set up to be a part-time position, so it was not difficult to balance my work at Southwest Capital Bank with serving Bernalillo County. Many times, the work overlapped, and both jobs benefited. I was fortunate that Greg Levenson supported me in doing both jobs.

> Covid-19 truly was a game-changer in forcing banks and the world to adapt and adjust to an environment like we never experienced before.

How has the COVID-19 pandemic affected you and your bankers? What challenges did you overcome, and what lessons would you share in time with future leaders?

COVID-19 truly was a game-changer in forcing banks and the world to adapt and adjust to an environment like we never experienced before. Many of us have gone through financial market meltdowns and extreme negative banking situations; however, this was a global, personal, and business phenomenon. Lockdowns, no travel, businesses closing, supply chain disruptions, extreme loss of life of friends and family, confusion, stress, fear, isolation, masking up, the race to vaccinate, and the list goes on. As bankers, we all needed to continue to provide essential services to our customers while also ensuring we protected our employees and our families. Drive-ups, online and mobile banking, night drop, curbside banking, Zoom and Teams meetings, and work from home were all new and old banking solutions all bankers quickly put into full motion.

The biggest lesson we learned is, we all try and prepare for all types of business disruption and disaster recovery; however, no matter how much you think you are ready, something unexpected will happen. This sort of event is when you need to think quickly, make decisions, and always rely on common sense. Showing confidence, compassion and empathy go a long way to helping you deal with any situation.

What is your claim to fame? Success as a banker or as a political figure?

I do not feel like I have a claim to fame. I am proud of the work I have done over the past 32 years and the great colleagues and customers I have been able to work with. I am blessed to have a great wife and family, and I enjoy watching our children start their journeys and adventures in life.

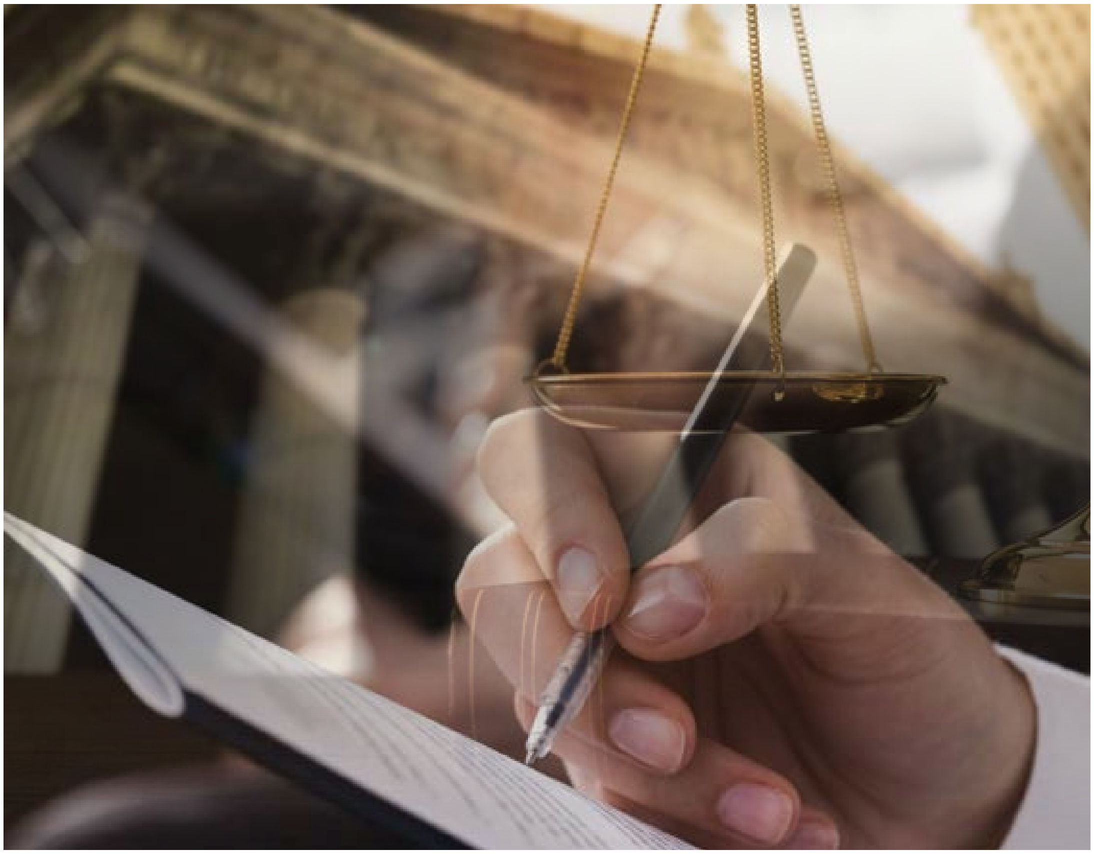
It has been rewarding to watch Southwest Capital Bank grow and handle the challenges of being a family owned independent community bank. I am proud of developing a best-in-class cannabis-related business banking process and helping to provide financial services to this legitimate legal New Mexico industry. Finally, being elected chair of the Bernalillo County Commission was very cool, and I will always remember my days on the commission. ■

EXECUTIVE VICE PRESIDENT'S MESSAGE

JOHN W. ANDERSON,
EXECUTIVE VICE PRESIDENT
New Mexico Bankers Association

When you combine all funding sources, stimulus legislation infused $19.1 billion worth of funds and services into New Mexico.

THE 2021 LEGISLATIVE WRAP-UP



Since January 2020, the New Mexico Legislature has been in session five times: the regular 30-day session in January 2020, the first special session in June 2020, the second special session in November 2020, the 60-day regular session that started Jan. 20, 2021, and the first special session in March 2021. Why so many sessions in a little over a year? The main culprit, both directly and indirectly, has most certainly been the COVID-19 pandemic. Even with so many legislative sessions as of late, more is on the horizon. It is anticipated that the Legislature will be called to a Special Session again in November to consider reappointment legislation.

Federal Funding

You may ask, how are my taxes being spent by Congress? Since the COVID-19 pandemic began in March 2020, Congress has allocated stimulus funding to states, tribes, local governments, individuals and businesses through stimulus legislation:

- The Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020
- The Families First Coronavirus Response Act
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act
- Paycheck Protection Program and Health Care Enhancement Act
- The Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, 2021
- American Rescue Plan (ARP) Act of 2021

When you combine all funding sources, stimulus legislation infused $19.1 billion worth of funds and services into New Mexico. Funds were in the form of direct payments to individuals, expanded unemployment benefits, paycheck protection program loans and other business supports, increased federal share of Medicaid costs, payments to health care providers, and FEMA support. Funding also included expanded resources for the state's existing federal-funded programs and block grants (SNAP), the Substance Abuse Prevention and Treatment Block Grant, and the Child Care and Development Block Grant. Finally, three of the pieces of stimulus legislation provided general relief payments to state government, K-12 education, and higher education that could be used broadly for pandemic-related spending.

The 2020 CARES Act provided tribes, states, and larger local governments with allocations of coronavirus relief funds. New Mexico received $1.25 billion in coronavirus relief funds, of which $182 million was directed to the city of Albuquerque and Bernalillo County. The state Legislature allocated the remaining $1.07 billion of its coronavirus relief funds in the first 2020 Special Session:

- $750 million to the general fund
- $130 million for FY20 COVID-related state-emergency expenditures
- $188 million to tribes, pueblos, and localities.

The governor vetoed all but the $750 million allocation to the general fund. Still, she ended up allocating the remaining funding close to the Legislature's plan — $178 million to tribes and local governments and $140 million for general fund expenditures.

In the 2020 second Special Session in November 2020, the Legislature further directed the use of those funds:

- $194 million to provide $1,200 payments to unemployed New Mexicans.
- $100 million for the New Mexico Finance Authority to provide grants to small businesses.
- $15 million for homeless housing support.
- $10 million to the Human Services Department for food banks and additional $750 payments to low-income households.
- The remaining $431 million was used for personnel costs for public health and safety employees.

The 2021 American Rescue Plan included $350 billion in COVID-19 relief aid to states, tribes and localities, of which New Mexico will receive $1.62 billion that can be used through the end of 2024. The Act stipulated allowable uses of relief funding to include:

- Assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality
- Premium pay to workers performing essential tasks during the pandemic
- Cover government revenue losses from the pandemic, or
- Investments in water, sewer, or broadband infrastructure

The Act also stipulated that the funds could not be used for state pensions, to offset a new tax cut, or to delay a tax increase. In addition to the state and local fiscal recovery funds, the Act included a $10 billion coronavirus capital projects fund available to states, territories and tribal governments for critical capital projects that directly enable work, education and health monitoring in response to the COVID-19 crisis. New Mexico is expected to receive $134 million of the capital fund, and the funding will remain available until it is expanded.

The 2021 Regular Legislative Session Update

The 2021 Legislature adjourned at noon Saturday, March 20, having considered 252 House bills, 454 Senate bills, 60 Memorials and 37 constitutional amendments during the 60-day session. Only 158 bills passed this session, which is well under the average number of bills passed (356) in ten previous 60-day sessions. Of the 158 bills enacted in this year's regular session, the governor signed 140 into law. She vetoed the other 18.

> House members who were present in person participated by Zoom so that there was no disadvantage to members who were not physically present at the capitol.

The regular session opened under the most unusual circumstances because of the COVID-19 pandemic. The state capitol was off-limits to the public and lobbyists for the entirety of the session. Only legislators, certain media members and legislative staffers were admitted to the capitol.

The governor's annual State of the State speech, which historically marks the commencement of each legislative session, was not scheduled.

Most legislative committee meetings were conducted online. The Senate considered allowing members to participate in person in capitol hearing rooms, and the House Appropriations Committee met in person at the capitol. The House allowed representatives to participate in floor session debates and vote remotely. House members who were present in person participated by Zoom so that there was no disadvantage to members who are not physically present at the capitol. In the Senate, members were on the floor or utilizing Zoom from the capitol offices to participate in floor votes.

Public input for committee hearings was limited to emails or online options such as Zoom comments. It was feared that without the usual ongoing conversations among legislators, staff, lobbyists and state agency representatives, the legislation would not be as well-vetted and developed as in previous sessions.

Instead of her State of the State address, the governor submitted to the Legislature her priorities for 2021. The list included the following:

- Revise the Small Business Recovery Act of 2020. The Act, which was enacted in the June 2020 Special Session, contained a $400 million appropriation from the Severance Tax Permanent Fund. The legislation was enacted and signed by the governor.
- Reform the state's Liquor Control Act to assist businesses such as restaurants. The reform provided for alcohol delivery and the purchase of dispenser licenses at a reasonable price. The legislation was approved and signed by the governor.
- Legalize adult use of cannabis. The legislation was approved in the March 2021 Special Session and signed by the governor.
- Reform predatory lending practices by limiting the annual interest rates on small loans. The legislation was not approved by the Legislature.

EXECUTIVE VICE PRESIDENT'S MESSAGE *continued on page 8*

EXECUTIVE VICE PRESIDENT'S MESSAGE *continued from page 7*

There were a few legislative disappointments. For the second year in a row, the Legislature did not approve legislation to repeal the state income taxation on Social Security.

- Provide a 1% distribution of the state's multibillion-dollar Land Grant Permanent Fund for early childhood education. The legislature approved the constitutional amendment.
- Create a clean fuel standard to reduce emissions that would include production, shipping and use. The legislation was not enacted.

Overview

Overall, the NMBA had a successful 2021 legislative session. Most importantly, we were able to assist in defeating a proposal to create a state bank. We opposed a number of mortgage-related proposals that were defeated, as well as real and personal property proposals that included a homestead exemption increase and a real estate transfer tax.

There were a few legislative disappointments. For the second year in a row, the Legislature did not approve legislation to repeal the state income taxation on Social Security. Also, a mandate to provide a course for financial literacy in public schools was unsuccessful. We still have concerns with HB 255, the liquor license reform bill. We believe the bill did not provide adequate protection to existing licensees, and it may well impair the collateral banks hold for certain liquor license loans.

Bills Monitored by the NMBA (Enacted and Signed)

- Taxation relief for small business (SB 1)
- Small Business Recovery Act (SB 3)
- Housing Trust Fund funding (HB 2)
- Broadband (SB 93, HB 2, HB 10)
- Sustainable Economy Task Force (SB 112)
- Adjustable-rate mortgages (SB 365)
- LEDA project funding (HB 11)
- Liquor license reform (HB 255)
- Gross receipts tax deduction for manufacturing services (HB 278)
- Expansion of low-income comprehensive tax rebate and working families tax credit (HB 291)
- Workforce training residence requirements (HB 155)
- Early childhood education resolution (HJR 1)
- Air quality and hazardous waste regulations (SB 8)

Bills Monitored by the NMBA That Were Not Enacted

- Real estate transfer taxation (HB 19)
- Homestead exemption increase (HB 36)
- Private right of action allowed for certain environmental statutes (HB 50)
- Interest rate caps on small loans (HB 99, HB 149, SB 66)
- Minimum wage increase (HB 110)
- Public bank (HB 236, SB 313)
- Public education financial literacy course requirement (HB 302, SB 170, HB 163)
- Clean Fuel Standard Act (SB 11)
- Fracturing moratorium (SB 149)
- Financial Exploitation Act (SB 189)
- Mortgage Relief Act (SB 349)
- Repeal state taxation of Social Security (HB 49, SB 78, SB 162, SB 208)

The Special Session

Legislators ended the two-day 2021 Special Session on March 31. The Legislature considered and approved three substantive bills:

- SB 1 to expand the Local Economic Development Act (LEDA)
- HB 2 to legalize adult use of cannabis and
- SB 3 to expunge arrest and conviction records for certain cannabis offenses

The governor signed the three bills. The principal purpose given by the governor for calling a Special Session was to consider cannabis legalization proposals. The bill legislators ultimately approved, HB 2, decriminalizes the possession, use, production, transportation, and sale of commercial cannabis for nonmedical adult use and creates a regulatory and taxation structure. The bill enacts the Cannabis Regulation Act (CRA), a comprehensive plan for regulating and licensing commercial cannabis production and distribution, including the sale and consumption of cannabis by persons age 21 or older. A new Cannabis Control Division (CCD) created in the Regulation and Licensing Department is charged with regulating, administering, and collecting fees connected with commercial cannabis activity and licensing, the medical cannabis program, and providing cannabis education and training programs. The Department of Health's authority under existing law related to commercial cannabis activity and the medical cannabis program is transferred to CCD. The new law will allow adults 21 and older to personally possess up to 2 ounces of cannabis, 16 grams of cannabis extract or 800 milligrams of edibles. Adults 21 and older can also grow up to six mature plants. Licensed sales will begin no later than April 2022, and the state will begin issuing business licenses by January 2022. The bill imposes an excise tax of 12% in addition to gross receipts tax. In 2025, the excise tax will increase from 12% to 18% over five years.

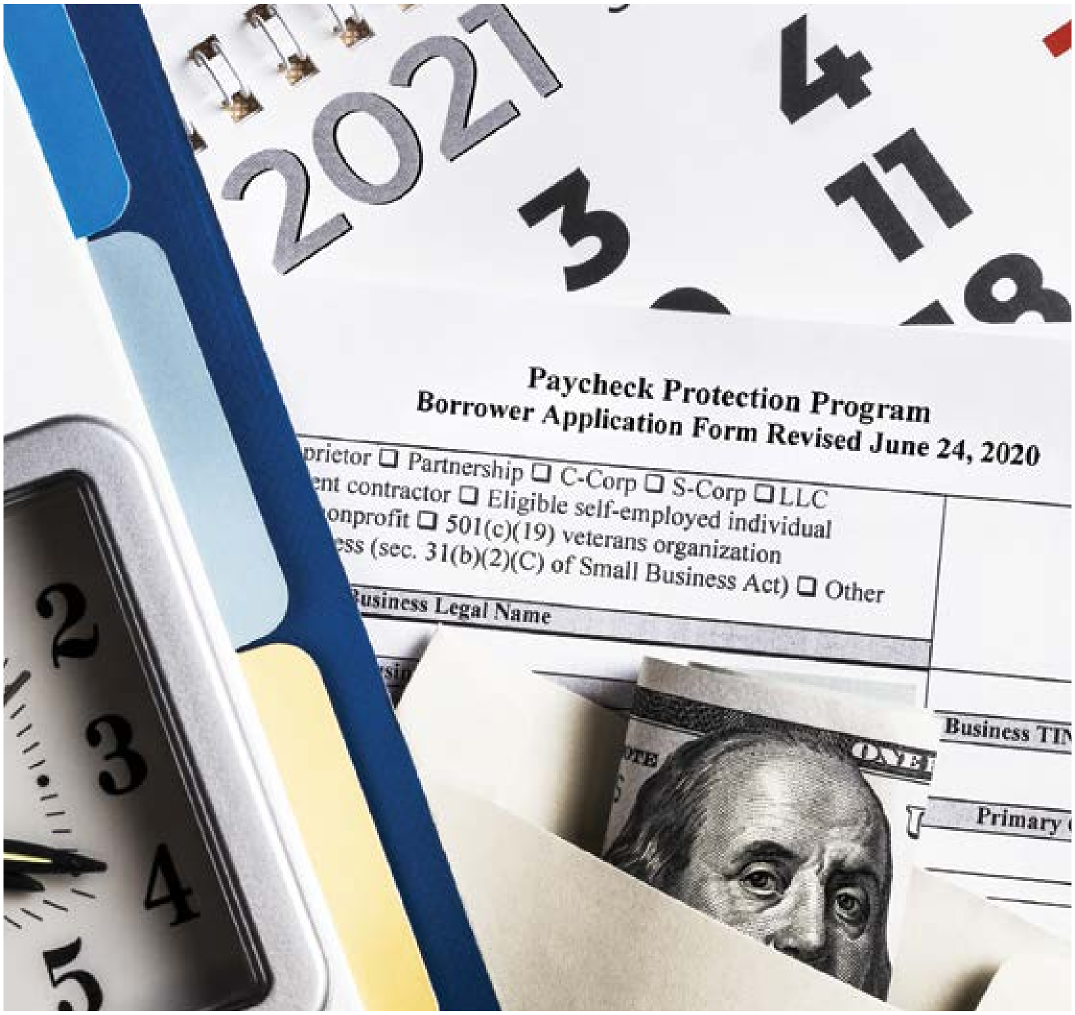
The 2021 Annual Convention

With summer just around the corner, the NMBA is in full swing preparing for our annual convention, scheduled August 25-27, 2021, in Orlando, Florida. ■

WASHINGTON UPDATE

ROB NICHOLS, PRESIDENT AND CEO
American Bankers Association

PERSPECTIVE ON THE PAYCHECK PROTECTION PROGRAM



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

At the end of May, the government's Paycheck Protection Program is scheduled to come to a close. If Congress does not extend the program, we can expect the "Monday morning quarterbacking" about the program's impact on the economy, its design and implementation, and its ultimate cost to begin. Those are appropriate questions to ask as we consider the lessons learned from the nation's response to the coronavirus pandemic.

Here's what I know already: The biggest small business rescue program in U.S. history would have been an unmitigated failure without the extraordinary efforts of America's banks and their dedicated employees. It would never have produced the positive results it did without the incredible collaboration between ABA and our state association alliance partners.

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

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

WASHINGTON UPDATE *continued on page 10*

From the start, ABA and our state association alliance partners encouraged banks to step up and participate in PPP despite all the obstacles, and step up you have. As of April 11, banks were responsible for 80% of the nearly 9.6 million PPP loans so far and 93% of the $755 billion in PPP funding. I am particularly pleased to see how banks of all sizes supported the program.

WASHINGTON UPDATE *continued from page 9*

It was against that backdrop that the federal government asked banks and other financial institutions to help the Small Business Administration launch the Paycheck Protection Program. On paper, the program dwarfed any previous SBA lending program in its history, and the agency was asked to launch it within days of lawmakers passing the CARES Act.

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

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

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

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

ABA and the state associations also partnered on targeted ad campaigns to encourage minority- and women-owned businesses to consider applying for PPP loans. This partnership was just one of many industry initiatives to ensure PPP funds reached every business that needed them.

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

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

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

HOW WILL DIGITAL LENDING BENEFIT YOUR BANK?

By Simon M. Fisher, CSI Business Solutions

Digital banking trends have accelerated as a result of the pandemic, and many institutions have pivoted toward digital transformation. But in the digital lending space, slow-moving institutions still face a disadvantage.

The economic slowdown and obstacles to in-person channels have changed lending demands. These trends, along with intensified competition and high borrower expectations, make loan origination an essential component of your digital banking strategy.

Before the COVID-19 pandemic, CSI conducted a digital lending trends survey of 107 banks. Of the respondents, around 58% prioritized digital lending to increase market share. Further, CSI's 2021 Banking Priorities Executive Report revealed 43% of bankers surveyed planned to prioritize digital lending when asked which technologies they would use to expand their geographic footprint and customer relationships. Though many banks have expedited their digital strategy over the past year, the adoption of digital lending has yet to meet the increased rate of demand.

The pandemic has driven customers to rely on digital channels instead of visiting branches, which has leveled the playing field between banks and non-bank lenders. As customers weigh their lending options, a seamless experience is a determining factor in their decision. Many banks have traditionally cultivated customer relationships in the branch, but with the prevalence of digital, your bank must now ensure a superior digital lending experience to acquire and retain customers.

Setting aside recent events, it's wise to broaden lending capabilities. Outdated technology and inefficient processes hamstring your institution against a shifting economy. And a lackluster or incomplete digital experience may drive customers elsewhere.

Exploring the Benefits of Digital Lending

Lending digitalization does more than aid loan processing. According to a recent AITE Matrix Report, digital loan management software supports your bank's growth by providing the following benefits:

Improved User Experience: A variety of companies — including non-bank lenders — vie for your customers, and brick and mortar banking isn't for everyone. A configurable lending platform integrated into your existing digital solution empowers customers to apply for needed funds without visiting a branch or turning to another provider.

In addition, omnichannel delivery synchronizes online and offline channels, allowing customers to receive lending services from whichever device they choose. Digital lending also enhances the back-end experience, improving lender responsivity. Creating and distributing a loan or transferring information to the core system no longer requires navigating disparate programs.

Efficiency Gains: Digital lending streamlines the lending process and lending compliance while also providing quick resolutions to requests. And like many aspects of digital banking, automating the process saves time and money.

Business Intelligence and Analytics: While big banks have leveraged data to gain market share, many community banks have fallen behind. As customer acquisition costs continue to rise, your institution must drive traffic via digital channels. A robust solution with exceptional intelligence and analytics opens opportunities to increase market share and cross-sell to current customers.

Besides marketing and strategic planning, you can use dynamic intelligence dashboards to reverse engineer the digital lending process. In doing so, you can quickly determine whether you can refinance a loan to save a customer money in record time.

DIGITAL LENDING *continued on page 12*

DIGITAL LENDING *continued from page 11*

Credit Risk Management: With digital lending, you can immediately feed data from a credit report into the loan origination system and assess your customers' five Cs of credit. This feature facilitates quicker turnaround and more confident decision making.

While matrix-based lending scores may cause concern about overlooking loans or denying important customers, most digital lending solutions allow institutions to set the decision parameters. This allows obvious approvals or denials to process immediately, while others route to you for review.

Regulatory Compliance: Digital lending makes data accessible, rendering manual searches for documentation unnecessary and decreasing the risk of human error. To strengthen your compliance further, digital lending platforms provide a complete audit trail for regulatory review, and automation creates a more consistent compliance environment.

Automation Doesn't Have to Mean Automated Decisioning

Your bank sets itself apart through its connection with customers. And because you value those relationships, digital lending may seem like you're sacrificing that human connection. But your bank can find a balance by embracing the right level of automation for your institution and using these tools to inform decisioning. Digital lending automates tasks that were once manual but should not be mistaken for automating the decisioning process.

However, in some circumstances, automating decisions can yield favorable results. For instance, if your institution has a conservative lending policy, a properly configured digital lending system maintains tight controls and ensures nothing slips through the cracks. Similarly, if your institution is an early adopter of, or is highly specialized in a particular type of credit, automation will drastically streamline the process.

Reinventing the Loan Origination Process

Institutions that wish to stay relevant must embrace digital technologies. Digital lending adoption does present some challenges, including upfront costs and vendor management. But you can offset these concerns by embracing automated loan origination tools along with the right digital lending strategy for your bank, allowing you to provide your customers with the service they need while improving your own processes.

Learn more about simplifying digital lending for your bank by watching CSI's on-demand webinar. ■

Simon Fisher is product manager, CSI Banking Solutions.

GOOD THINGS COME TO THOSE WHO WAIT:
INTERAGENCY PROPOSED FLOOD Q&A's

By Elizabeth Madlem, Compliance Alliance

The Agencies (OCC, FRB, FDIC, FCA and NCUA) have recently proposed[1] revisions to the Interagency Questions and Answers Regarding Flood Insurance. The proposal's purpose is to supplement the July 2020[2] proposed Q&As, which only contained two proposed questions on private flood insurance. These new proposed Q&As are formulated based on 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.

Lenders are not required to accept private flood insurance policies solely because a policy contains the compliance aid assurance clause when the lender reviews it and determines the policy does not actually meet the mandatory acceptance requirements.

In attempts to provide additional clarity 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 (nine proposed Q&As)
2. Discretionary acceptance (four proposed Q&As)
3. General compliance (11 proposed Q&As)

So, what does this mean for financial institutions?

Mandatory Acceptance Key Takeaways

The lender is required to review the policy to determine if it meets the mandatory purchase criteria any time:

- There are 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)

If it does not, the lender may still accept the policy if it meets the discretionary acceptance criteria. Suppose a lender has a policy not to originate mortgage loans in nonparticipating communities or coastal barrier regions where NFIP is not available. In that case, private flood insurance requirements will not require the lender to change its policy.

Lenders are not required to accept private flood insurance policies solely because a policy contains the compliance aid assurance clause when the lender reviews it and determines the policy does not actually 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 contain clause language about the compliance aid assurance in the policy or an addendum before the bank accepts it 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. Other key aspects of the policy must also be accurate, like the borrower's name and address.

Lastly, suppose a policy lacks the compliance aid assurance clause. In that case, the lender is still free to review the policy to determine if it meets the criteria under discretionary acceptance from the Regulation. But the lender must still determine, even if the policy does not meet the requirement for discretionary acceptance, whether they are still required to accept the policy 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 where 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 for 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 determination 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. They should request additional information about the policy if they are not able to make that determination. Lastly, servicers must also comply with the Regulation when determining whether private flood insurance may be accepted under the mandatory or discretionary acceptance provisions if the Agencies supervise the lender. ■

[1] *https://www.govinfo.gov/content/pkg/FR-2021-03-18/pdf/2021-05314.pdf.*
[2] *https://www.fdic.gov/news/press-releases/2020/pr20077a.pdf.*

RELATIONSHIP VALUE PRICING AND CUSTOMER PROFITABILITY

By Jay Kenney, SVP and Southwest Regional Manager for PCBB

Relationship value pricing can be an effective strategy for improving a community bank's fee income and determining the worth of the overall customer relationship. This is especially important in the current interest-rate environment.

However, for relationship value pricing to work, your institution must carefully analyze the costs and profitability of each customer relationship, have systems that monitor the relationship, and think creatively about what it can offer preferred customers.

Defining relationship pricing

In relationship pricing, a community bank adjusts fees and rates for a deal based on the overall relationship it has with the customer and their related parties. This links the value of the deal to the profits of the institution.

Typically, this means you can structure deals for products and services that make sense for the institution and the customer. For instance, by adding an operating account that generates transactional fee income, the lender can offer a more competitive rate and still meet the same ROA/ROE or lifetime income.

Sometimes bankers are asked to increase the rate they're paying on a money market account, CD, or a credit product for a client. But a client relationship is more than a single rate — it's the total value that the relationship brings to the table.

Provide creative customer offerings. Rather than negotiate solely over rates, talk to your customers about what they value. Are they willing to move their operating account or excess deposits? Would they consider trading fees for interest rates? Or are they interested in different structures? Knowing this increases their value to you as a customer and your ability to compete and close deals.

Some helpful and innovative options could include:

Ask for the deposit. Some customers are awash in cash these days, while others are cash-strapped. By asking for their operating accounts, you can help your institution reduce its overall cost of funds while increasing the stickiness of the relationship.

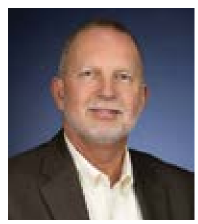
Look for fee income. Some business owners may need a little extra help these days and would even be willing to pay for it. Consider your natural prepayment rate and prepayment penalties for longer-term obligations or increasing fees for longer fixed-rate terms.

Consider different structures. The term may matter. Is it fixed or floating, and when are rates reset? How are you setting up payments? Could you be creative, meet lifetime income thresholds, and match your borrower's seasonal cashflows?

Take a holistic view. Once you have solved some of your customers' problems, be sure to look at the entire customer relationship. It is not just about one product vs. three products, either. Sometimes, you have customers with three loans that don't add as much value as the customers with one loan. By analyzing the whole customer relationship, including grouping customers by their related accounts, you can provide additional services or discounts based on the total relationship profitability, not just the number of products used. To assess properly and efficiently, a profitability modeling is recommended. You get an objective view and can drill down into the data, making it easy to adjust offerings as needed.

Sometimes, you have customers with three loans that don't add as much value as the customers with one loan.

If you need assistance with relationship value pricing or customer profitability, please contact Jay Kenney.



Jay Kenney, SVP and Southwest Regional Manager for PCBB | pcbb.com | jkenney@pcbb.com

Dedicated to serving community banks' needs, PCBB's comprehensive and robust set of solutions includes cash management, international services, lending solutions, and risk management advisory services.

RECREATIONAL MARIJUANA PASSES IN NEW MEXICO

By Mark Anderson, NMBA Legal and Legislative Assistant

In the wake of the COVID-19 pandemic and the subsequent economic fallout, many states are becoming more active and creative in promoting local economic solutions. Desperate times tend to force the hands of elected officials and inspire the quest for nontraditional solutions. In New York state, Governor Andrew Cuomo, facing multiple mushrooming scandals, decided to relent and sign a law that legalized recreational marijuana in his state, a logical move he was opposed to until he became desperate enough to relent. Here in New Mexico, however, our governor was the one pushing for recreational cannabis legalization, bringing the state's Legislature back into Special Session to pass the legislation. New Mexico Governor Michelle Lujan Grisham listed marijuana legalization as a top priority entering the Legislature and, despite some hurdles, accomplished the goal.

New Mexico becomes the 17th state to pass legalized recreational marijuana, the vast majority of which passed their laws through direct ballot initiatives. New Mexico joins Vermont, Illinois, and New York to pass legalization through the Legislature. Passing a somewhat controversial piece of legislation is more difficult in generally risk-averse legislative bodies than opening it up to the public in the form of a ballot initiative. The general public tends to want progress at a much faster rate than most of our elected officials, so the credit must go to Governor Lujan Grisham for taking a hardline approach and forcing the Legislature to pass something they weren't able to during the regular session. This approach is the inverse to what many Americans are accustomed to seeing, which is elected officials regularly disregarding the desires of their constituents in favor of more powerful, organized interests. The result showed the Governor prioritizing a piece of legislation that is overwhelmingly popular with New Mexicans.

In a poll from October 2020, 72% of New Mexicans indicated they favor recreational marijuana legalization. So, the bill made sense both from a policy perspective and a political perspective. It will create greater economic opportunities and social equity, and it has overwhelming public support. Lujan Grisham had been pushing for recreational legalization for multiple legislative sessions, but the economic difficulties created by the pandemic created a natural opportunity to make a case for legalization. In 2019, the New Mexico House approved a legalization bill that would have limited marijuana sales to mostly state-run stores. Frankly, the 2019 bill was somewhat ill-conceived and would have largely defeated the purpose of legalization. The 2021 legislation is far more comprehensive and economically viable. The provisions of the legalization bill include:

- Adults 21 and older can purchase and possess up to 2 ounces of cannabis, 16 grams of cannabis concentrates and 800 milligrams of infused edibles. Licensed laboratories will test all products for contamination and potency.
- Home cultivation of up to six mature cannabis plants will be allowed for personal use, provided the plants are out of public sight and secured from children. Households will be limited to 12 total plants. Marijuana grown at home cannot be sold or bartered.
- Legal retail sales won't begin for another year or so, with a target date of April 1, 2022, or earlier. Final license rules will be due from the state by Jan. 1, 2022, with licenses themselves issued no later than April 1.
- Cannabis purchases will include a 12% excise tax on top of the state's regular 8% sales tax. The excise rate will increase 1% each year, beginning in 2025, until it reaches 18% in 2030. Medical marijuana products, available only to patients and caretakers, would be exempt from the tax.
- Legislators wanted to ensure medical patients can still access medicine after the adult-use market opens. The bill allows the state to force licensed cannabis producers to reserve up to 10% of their products for patients in the event of a shortage or grow more plants to be used in medical products.
- There is no limit on the number of business licenses granted or the number of facilities a licensee could open under the program. However, regulators could stop issuing new licenses if an advisory committee determines that "market equilibrium is deficient."

- Small cannabis microbusinesses, which can grow up to 200 plants, will grow, process and sell cannabis products all under a single license. The bill's backers have said the separate license type will allow wider access to the new industry for entrepreneurs without access to significant capital.

In addition to the legalization bill, New Mexico also passed SB 2, which expunges criminal records for cannabis convictions that are now legal and allows for individuals currently in custody for cannabis crimes to become eligible for resentencing. The accompanying expungement legislation is crucial. It ensures a more equitable future around cannabis and corrects many of the wrongs caused by its senseless prohibition.

The marijuana legalization issue is certainly worth close examination. It shows how quickly public opinion can be shifted. In 2005, polling generally indicated that around 35% of Americans favored legalization, and around 65% did not. In recent national polling, figures are generally around 70% supporting legalization and around 30% against. In only 15 years, the American public has essentially done a complete about-face on the issue of marijuana legalization. There are numerous reasons for this, but, most notably, the relentless propaganda around marijuana has subsided, allowing American citizens to make more rational, informed decisions around the issue. American popular culture depicted marijuana for many years as having wildly hallucinatory effects. It also said the average marijuana user stayed permanently glued to the couch with no desire for education or employment. In recent years, however, it has become clear to many people that it's entirely possible to be both a marijuana user and a highly functional member of society.

Past depictions of marijuana users were, of course, broadly drawn stereotypes meant to obscure the real debate. Why is a substance that is certainly less dangerous than other legal substances being stigmatized and placed under prohibitive restrictions? A lot of the popular consensus around the illegality of marijuana had to do with myths and falsehoods. The more those myths began to be shattered, the more the American public began to be swayed on the issue. The passage and success of legal recreational marijuana in multiple states, including Colorado, certainly helped shatter some of the myths. Sometimes, to sway public opinion, something must be seen as "mainstream" and not part of some fringe outside culture before it can gain wide-scale public acceptance. That certainly seems to be the case with marijuana. Marijuana, like any substance, can be abused and not be ideal for certain individuals. But those points often don't enter the equation when Americans discuss the legality of alcohol. Alcohol has been legal for so long that Americans accept it. We've been conditioned not to question its legality, so it has none of the caveats that exist with other substances. As marijuana use has become more mainstream in recent years, many of the caveats surrounding its use have been dropped.

The dramatic shift in opinion around marijuana legalization shows how important it is for the public to be supplied with correct, objective information. When people are supplied with correct information not designed to propagandize, they tend to make more rational decisions around health care, the economy, drug policy and other important issues. Most people are not fundamentally irrational or illogical, but the propaganda they're often inundated with can be. It's encouraging to see a positive shift in public opinion around an issue because it shows it's possible with myriad other issues if people are supplied with correct information.

The marijuana legalization issue is certainly worth close examination. It shows how quickly public opinion can be shifted. In 2005, polling generally indicated that around 35% of Americans favored legalization, and around 65% did not.

Another aspect of marijuana legalization worth examining is how elected officials can use their power and leverage to great effect. Unfortunately, in the United States, we often see elected officials using their power to solely benefit their largest donors or acting as if they don't hold any power. When average Americans demand action from elected officials, the customary reactions tend to be along the lines of, "Forces far beyond my control don't allow me to act. I wish I could, but I can't." Public officials are masters at feigning powerlessness.

In both New York and New Mexico, power and leverage have been used to pass important legislation. In New York, Governor Cuomo felt pressure from his constituents and Legislature due to multiple scandals and, since he wanted to preserve his power, he enacted a popular measure. On the other hand, Governor Lujan Grisham used her power to pressure a reluctant legislature to pass an important legislative priority. In both cases, the pressure was exerted on elected officials using leverage and power. The New York Legislature exerted pressure on Governor Cuomo using its power, while Governor Grisham exerted pressure on the New Mexico Legislature using her leverage and power.

New Mexicans should be heartened to learn that their governor is willing to use her position to enact legislation that is popular with huge percentages of the population. Citizens often feel completely left out of the legislative process, but Governor Lujan Grisham has reminded us how much power elected officials have to accomplish positive goals. Her success was the essence of being an elected official. ■

WHAT YOU NEED TO KNOW ABOUT CANNABIS BANKING:

An Interview With Money Man Lonnie C. Talbert

By Josh Lee, The Paper

The following interview appeared in The Paper, an independent newspaper based in Albuquerque, New Mexico. The Paper's website can be found at abq.news

The road to setting up a cannabis business gets thorny and tough to navigate when it comes to protecting assets. We sat with Southwest Capital Bank president and chief operating officer Lonnie Talbert to chat about cannabis banking.

Q: So I'm a little confused about how a cannabis company can get a bank account in the first place. I thought federal law kept them from it.

Talbert: Cannabis is federally illegal and state-legal depending on the state that you reside in. During the Obama administration, a couple of memos were put out that have been referenced numerous times. One was called the Cole Memo, and then another was put out by FinCEN (Financial Crimes Enforcement Network), the Treasury's financial services investigation arm. They basically said that marijuana is a schedule one drug. It's federally illegal. However, we recognize that numerous states have approved medical marijuana, and we want to provide guidance that if you're going to bank with this industry, then here's the best way to do it. Financial institutions that were willing to look into the industry take that risk, make a significant investment in people and resources to support this industry by providing banking services, put together programs that followed that guidance along with state guidance. It laid the framework for financial institutions to follow these guidelines and believe that that would help support them if they were ever questioned as to why they were doing it.

The challenge is those memos have not been updated since they were written. However, depending on who's in charge at the White House, the DOJ or the attorney general for the country would say, "We're not going to worry about that. We're not going to put resources toward that. We have bigger things to do." I'm paraphrasing. I'm not speaking for them, but they've recognized that this industry is here.

Even now, the SAFE Banking Act is being reintroduced in Congress. It's been going back and forth for years — trying to get some safe harbor for those who are willing to help and support this industry.

Q: How is banking different for cannabis companies compared to companies in other industries?

Talbert: With any industry that is considered high risk — whether it is a money service business, third-party payment processors, cash intensive businesses, gun companies, strip clubs, medical marijuana, recreational marijuana — anything that's considered high-risk activity is looked at, and then many banks won't want to touch those businesses, whether they're legal or not, because they take a lot more compliance work. They take a lot more customer due diligence. They take a lot more monitoring. They take a lot more resources — both systematically and physically, i.e., employees. They take a lot more work to report on and make sure you're following all the guidelines regarding what you're supposed to do for high-risk activities.

Many banks don't like to even mess with any of that stuff, so they don't accept those kinds of accounts. Marijuana, whether it is legal or not, is high-risk and high-risk takes a lot of extra work.

It's very important for a client and bank to be upfront with the business purpose and focus. When a cannabis customer calls, you have to be transparent.

Q: What steps does a new cannabis company need to take to set up its own bank account?

Talbert: They will need to reach out to an institution that is willing and prepared to bank marijuana — to bank high-risk activity type of accounts — and they will need to discuss and determine what all is required to open up their business account. A bank like Southwest Capital Bank has been engaged in supporting this industry for a number of years and doing it quite successfully in terms of regulations and customers. There is a significant cost to compliance and to maintaining and managing these types of accounts.

It may seem rather intrusive in the beginning based on the amount of paperwork they process. But it's so that they don't get their account closed immediately if there's an issue. It's so that we don't call them one day and say, "Hey, you have two weeks to get your account out of here because we didn't know what we were getting into."

It's very important for a client and bank to be upfront with the business purpose and focus. When a cannabis customer calls, you have to be transparent. We are 100% transparent, and that's what we expect from our customers. Just tell us. It's a no-judgment zone.

Q: Do you see these problems that cannabis companies face with banking going away with legalization?

Talbert: People talk about Safe Harbor and what will happen if cannabis is legalized federally. As I mentioned before, many financial institutions just won't want to be involved with high-risk banking activities. The hope is that it will become easier. If it were legalized or if there were Safe Harbor banking laws passed, that would give protections, and more banks would feel more compelled to say, "Okay, I feel a little better protected." But if they choose not to want to be involved in high-risk activities, it doesn't matter.

It really is irrelevant because today, all of these cannabis companies who are paying taxes, or who are paying their electric bill, or who are buying products and services — they are all in the system already across the U.S. Their money is already in the system. I think people are being naïve and thinking we need it to be legal. It's already happening. They all pay their taxes to the IRS, and all the money that gets delivered to the IRS is commingled, so it's already in the federal system. ■

THE PANDEMIC AND THE CONTINUING SUPERVISORY GUIDELINES

By Kevin Kim, Compliance Alliance

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

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

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

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

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

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

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

The TILA-RESPA Integrated Disclosures(TRID) rule also led to many violations. The Loan Estimate helps consumers understand the key features, estimated costs, and risks of the mortgage loan for which they are applying. The Closing Disclosure helps consumers understand all of the actual costs of the transaction and provide them with the opportunity to review costs and resolve any problems before closing. Under the TRID rule, the Loan Estimate is based on the "best information reasonably available" when the consumer provides disclosures. The bank must exercise due diligence in obtaining this information. The Closing Disclosure is based on an accurate disclosure standard. The FDIC found multiple instances involving Veteran Administration Loans where banks failed to comply with the "best information reasonably available" and due diligence standards under TRID by issuing Loan Estimates based on unavailable interest rates and loan terms. Additionally, examiners found potentially deceptive practices when banks represented certain terms for loans that were not generally available.

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

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

To address the fair lending risks, banks could consider regularly reviewing credit policies to ensure the Equal Credit Opportunity Act and Regulation B permit such considerations. The FDIC finds that a strong compliance management system helps ensure that financial institutions treat consumers more fairly. Moreover, the bank should review any filers or other criteria for online leads, website applications or credit scoring models.

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

Kevin Kim joined Compliance Alliance after graduating from the Benjamin N. Cardozo School of Law in 2019. He currently serves our members as one of our hotline advisers, where he spends his days guiding our members and writing articles for our weekly and monthly publications.

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

SURVEY:

LENDING PROCESS CHALLENGES REMAIN, DESPITE PANDEMIC-DRIVEN DIGITAL PUSHES

By Abrigo

Despite new pushes toward digital transformations, many financial institutions continue to use manual lending processes that add costs, create delays, and make their staff work harder than they must, according to a new survey by Abrigo, the leading technology provider of compliance, credit risk, and lending solutions for community financial institutions.

Abrigo surveyed nearly 250 lenders, credit analysts, chief credit officers, chief risk officers, and other professionals involved in lending and credit risk at banks and credit unions in an online survey between Feb. 18 and March 23, 2021. While the pandemic and related events created many challenges for community financial institutions, it also led to new opportunities and rewarded innovative thinking.

According to respondents, more than half of financial institutions represented in the Abrigo 2021 Business Lending Process Survey have accelerated their digital transformation plans due to the pandemic and related events. The environment also drove a renewed emphasis on finding efficiencies in the lending process, said 48% of respondents. One reason for this emphasis on creating efficiencies may be attributed to a heightened demand for financial services, such as Paycheck Protection Program loans. Nearly one in three respondents reported growth in the customer or member base.

Despite the digital push spurred by the pandemic, many bankers reported institutional challenges that commonly hurt lenders' ability to drive loan growth, manage credit risk, and satisfy customers or members. Even amid the remote, physical distancing environment of 2020, only one of every three respondents in Abrigo's survey said their institution currently offers the ability to apply online for a commercial loan. That is higher than the 20% who offered online loan applications in Abrigo's 2020 survey. However, 13% of respondents said

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their institution doesn't offer or plan to offer online loan applications in the future.

While community financial institutions recognize the value of digital transformation, the results gleaned from the survey show that there is significant room for improvement for more efficiency, automation, and reduction in manual processes. Among the findings:

- 46% said their financial institutions take at least five weeks to close a commercial loan. That figure includes many institutions (16% of respondents) requiring eight weeks or more.
- Entering the same data repeatedly was cited as the largest obstacle in the commercial lending process by 35%. Nearly two-thirds of respondents said their financial institution re-enters the same data point for a loan in another field or system up to five times, and one in four reported entering the data at least six times.
- 33% said gathering documents efficiently and consistently is the largest obstacle in their institution's commercial lending process. This was also the most frequently identified top obstacle from respondents in Abrigo's 2020 survey.
- Asked about their biggest headache related to ticklers, the documents required for every loan file, 65% of respondents said it is tracking and following up on missing items. Only 17% of respondents said their institution uses automation for ticklers.

"Process automation is incredibly important in today's lending environment," said Brandon Quinones, Abrigo's Director of Client Education. "Speed and consistency will make or break a deal, so putting a system in place to drive that automation — enabling financial institutions to spend less time on redundant data entry or requests and more time on value-add activities — is something industry leaders recognize as no longer just an option for their business."

In addition to gauging the current state of digitalization and automation within financial institutions' business lending processes, the Abrigo survey also assessed how banks and credit unions are approaching other areas of business lending, including pricing loans, assigning credit risk, and growing their portfolio.

"Financial institutions over the last year have faced unprecedented challenges trying to get capital to their communities — from ramping up for the Paycheck Protection Program to monitoring credit risks," said Jay Blandford, President of Abrigo. "Our survey shows the day-to-day obstacles many community financial institutions deal with daily. Technology has made it easier for many of their borrowers to apply, but many lenders are still using a largely manual process for business loans."

The 2021 Business Lending Process Survey results highlight the importance of institutions finding ways to overcome inefficiencies and inconsistencies to scale loan growth and manage risk. To learn more about Abrigo's 2021 Business Lending Process Survey, download the infographic, "The 2021 Business Lending Process Survey." For the complete data set and results, please reach out to press@abrigo.com.

About the survey

Abrigo asked 23 questions in an online survey from Feb. 18-March 23, 2021, to help financial institutions benchmark many of their commercial or business lending processes. The survey was made available to Abrigo customers and noncustomers, who were offered the chance to see survey results once completed and a chance to win a limited number of Starbucks gift cards. While not necessarily representative of the entire universe of U.S. financial institutions, the sample provides a detailed look at challenges faced by a large number of lending and credit professionals.

About Abrigo

Abrigo enables U.S. financial institutions to support their communities through technology that fights financial crime, grows loans and deposits, and optimizes risk. Abrigo's platform centralizes the institution's data, creates a digital user experience, ensures compliance, and delivers efficiency for scale and profitable growth. Make Big Things Happen. Get started at abrigo.com.

BANK NEWS

$14 Million Creates Wastewater-Related Infrastructure Serving Six New Mexico Reservation Villages — *Wells Fargo Project Investor*

The Pueblo of Laguna is a federally recognized tribe located in New Mexico, 50 miles west of Albuquerque. Residents live in six rural villages across 500,000 acres: Laguna, Mesita, Paguate, Seama, Paraje and Encinal.

Clearinghouse Community Development Financial Institution provided $14 million of Federal New Market Tax Credit Funding for Laguna to develop new wastewater-related infrastructure, including sewage, filtration and piping. Wells Fargo Bank was the project investor and Laguna Economic Advancement was the sponsor. This is the final phase of a $70 million wastewater development originally started in 2011.

The new infrastructure will greatly improve health and safety conditions throughout all six Laguna villages, which the COVID-19 pandemic has greatly impacted. This project will also create 40 construction jobs paying above the living wage and three permanent, full-time jobs paying above the living wage with full health and pension benefits.

"The Pueblo (of Laguna) has used various funding sources, such as Indian Health Services, Environmental Protection Agency, State of New Mexico, and financing through the USDA Rural Development Office and NMTC Funding as well as its own resources to install approximately $48M of water and wastewater for its six villages within a 32 square mile area to date," said John E. Antonio Sr., Governor of the Pueblo of Laguna. "This current NMTC transaction will complete the final scope of work that identified these much-needed repairs, upgrades and improvements. This effort was necessary to ensure the Laguna people would have water and wastewater systems that meet current codes and safety requirements, provide fire flow within all villages and result in reliable and safe water systems and appropriate water systems."

Four Corners Community Bank Celebrates a Birthday

Sheila Mathews, president and CEO, Four Corners Community Bank, thanked customers and friends while celebrating the 21st birthday of the bank this year.

She said, "As we welcome a new season, we also celebrate our birthday and 21 years as your community bank. Please share the special moment with us. It wouldn't be the same without you." ■

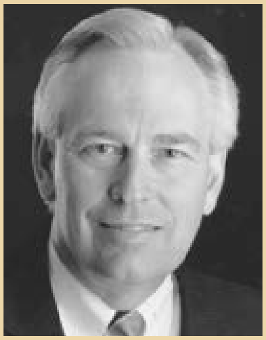
BANKERS ON THE MOVE

Four Corners Community Bank Welcomes Cortez Market President Sam Summers

Farmington-based Four Corners Community Bank recently appointed Sam Summers to lead its Cortez, Colorado branch. Sam has over 30 years of progressive lending and leadership experience. For the past 20 years, Sam has served as president and senior lender of several community banks in Wyoming. He has extensive experience in commercial, construction and agricultural lending. Further experience includes commercial real estate, credit analysis, management and customer service. Summers hails from Sheridan, Wyoming and earned his B.S. in Business Administration and Marketing from the University of Wyoming. ■

IN MEMORIAM:

Larry Willard



Larry Willard, long-time president and chief executive officer of Wells Fargo New Mexico and West Texas, died on February 24 in Midland, Texas. Mr. Willard was 78.

Larry served as president of the New Mexico Bankers Association in 1993-94 and on the NMBA Board of Directors for 20 years. He was described by friends as a visionary, mentor, philanthropist, education and literacy advocate, agent for change and a tireless civic leader. "Larry was committed to making New Mexico a better place to live as much as anybody I ever knew and was one of the most positively impactful leaders New Mexico has had in recent memory," said friend Steve Moise, the state's investment officer. "He worked to improve our educational system and our business climate and wanted every child to have the opportunity to receive a quality education, get a good job and move up the economic ladder."

As part of that goal, Willard endowed several libraries, including the Willard Reading Room at the University of New Mexico Zimmerman Library and the Gerald and Betty Ford Library at the Bosque School. Jessie Barrie, head of the Bosque School, said Willard was one of the school's earliest supporters, donating money for student financial aid and providing funds for the school's library, the Wells Fargo Conference Room and the Willard Room, a community learning and study space.

Willard was a former president of the UNM Board of Regents and chaired Albuquerque Economic Development and the Kirtland Partnership Committee. He also served on the boards of the Downtown Action Committee, Kirtland AFB Retention Task Force, Albuquerque Chamber of Commerce, Economic Forum of Albuquerque, Albuquerque Community Foundation, United Way of Central New Mexico, New Mexico Educational Assistance Foundation, Boy Scouts, Governor's Business Advisory Council, New Mexico Bankers Association, UNM Hospital board of trustees, UNM's Anderson School of Management, Albuquerque Academy and Special Olympics New Mexico.

Willard grew up in Roswell. After graduating from Roswell High School in 1960, Willard earned a degree in accounting and finance from Eastern New Mexico University. He then completed graduate school programs in banking and commercial lending at the University of Colorado and the University of Oklahoma.

Current UNM Board of Regents President Doug Brown called Willard "the essence of the best of community bankers," who supported community projects with personal and corporate financial donations and served as an example of "an outstanding citizen."

Beyond Willard's personal and corporate financial support, Dr. Cheryl Willman, director and CEO of UNM's Comprehensive Cancer Center, said Willard was "pivotal for me in thinking about how to structure the cancer center from a successful business model, and how to integrate it with our community," she said.

Willard helped her form and chaired the center's first community advisory board. He convinced her to speak publicly about why building a nationally recognized cancer center was not only good for patient care and meeting the needs of cancer patients in New Mexico, but also why it was important for economic and business development. In the last five years, research conducted at the cancer center has resulted in 173 patents and 10 biotech company start-ups.

A private family service was held in early March in Midland. ■

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