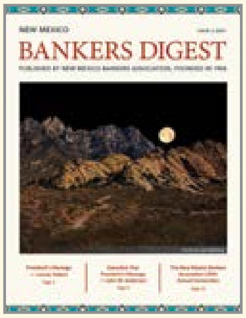
NEW MEXICO

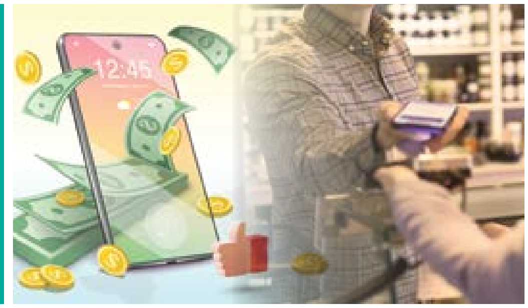
ISSUE 3, 2021

BANKERS DIGEST

PUBLISHED BY NEW MEXICO BANKERS ASSOCIATION, FOUNDED IN 1906


PHOTO BY: JIM RENFROW





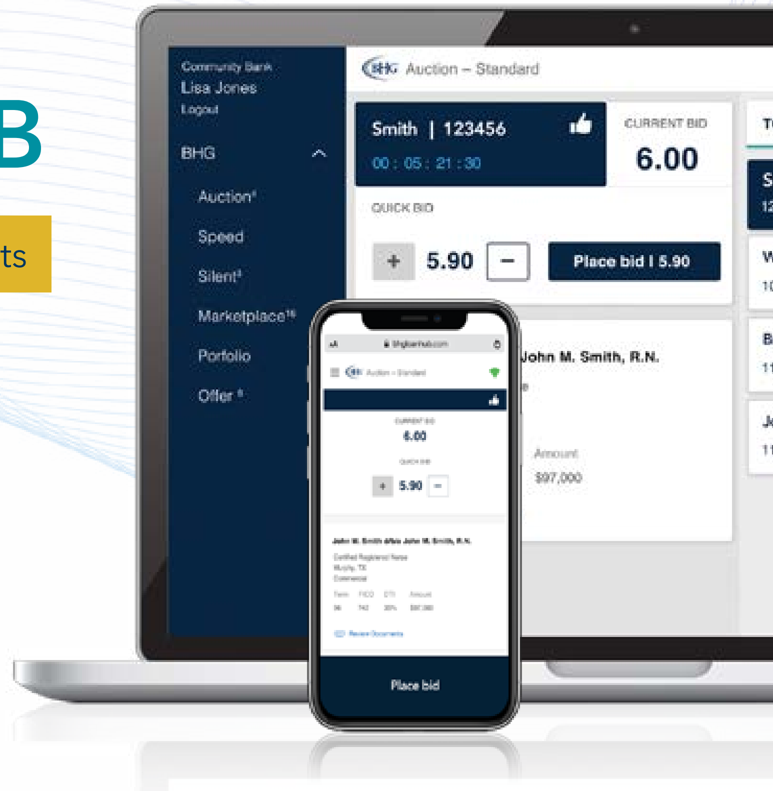
Our Mission

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.

THE BHG LOAN HUB

#1 Source for Time-Tested & Proven Assets

More than **1,300 banks have earned nearly $800MM in combined interest income** – with $1.1B sold to banks in 2021.



BHG PROFESSIONAL CHARACTERISTICS

FICO*	INCOME*	AVG. LOAN SIZE	YRS IN INDUSTRY*
737	$275,000	$103,000	19

WHAT YOUR BANK CAN EXPECT

2.65–5.90% return for your bank

$0 Historical Loss on the BHG Core Loan Program

~$10MM in loans available for purchase daily

35K+ borrowers come to BHG for financing monthly

Explore recently sold loans in seconds at **BHGLoanHub.com/NM** to get a glimpse of the kind of opportunities available to your bank.

BHG | BANK GROUP

*weighted average

PRESIDENT'S MESSAGE

LONNIE TALBERT

PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

I am looking forward to the next year as your NMBA President and want to thank Jason Wyatt again for his tenure these past two years.

VISIT OUR WEBSITE AT:

NMBANKERS.COM

IT'S THAT TIME OF YEAR AGAIN

Well, it is that time of year again when Balloon Fiesta is upon us and fall is in the air. This year is even more special because New Mexico will sponsor a live, in-person Balloon Fiesta event. Exciting to see us beginning to make progress in reopening our state for business.

I am looking forward to the next two years as your NMBA President and want to thank Jason Wyatt again for his tenure these past two years. I know the past two years have been extremely challenging for all of us, especially as bankers, trying to navigate all the federal and state programs designed to help businesses keep their doors open. Jason, you were amazing at helping all the state's bankers stay focused and heard.

Most recently, an issue related to the IRS has arisen regarding collecting customer banking transaction data.

The country's current administration, working closely with the Department of Treasury, is looking for ways to increase our taxes without stating they are increasing our taxes. This "collecting of banking data" would be for all customers who transact at least $600 of activity. This means roughly every person in America who has a bank account would be subject to this rule, and banks would be responsible for carrying the burden of reporting this information to the IRS. What this really means, once again, is the increase in regulation and cost of compliance will be carried by the institutions who are already breaking under the regulatory burden that has been added to our industry in the past two decades. Wow. More information will follow, and please join us in stopping this ridiculous overreach.

The country's current administration, working closely with the Department of Treasury, is looking for ways to increase our taxes without stating they are increasing our taxes. This "collecting of banking data" would be for all customers who transact at least $600 of activity.

Another hot topic in 2021 is the legalization of cannabis in New Mexico for adult use. During the 60-day session this year, the legislature approved the legalization of cannabis, with retail sales to begin no later than April 2022. In July, new laws went into effect related to personal use and consumption and what legally a person can carry without fear of criminal prosecution. This new law also opens many new questions regarding employee drug testing, HR issues related to a legalized substance, banking opportunities, tax revenues, job creation, and many other potential problems. Congress has once again passed the SAFE act to help financial intuitions receive fair regulatory treatment if they decide to bank this industry. We have seen the SAFE act pass the House many times, only to stall in the Senate. Maybe this time will be different; however, don't count on it.

In closing, I am excited and honored to work with all of you and the NMBA team for my term. I welcome your comments, suggestions, ideas and questions, and commit to doing all I can to promote New Mexico Banking. See you all soon and stay frosty. ■

EXECUTIVE VICE PRESIDENT'S MESSAGE

JOHN W. ANDERSON

EXECUTIVE VICE PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

Currently, more than 35 states have legalized cannabis for medical or adult use. But current federal law prevents banks from safely banking cannabis businesses, including ancillary businesses that provide them with goods and services.

VISIT OUR WEBSITE AT:

NMBANKERS.COM

IMPORTANT CONGRESSIONAL AND STATE LEGISLATIVE ISSUES

In this quarterly Digest message, I wanted to touch on two important Congressional issues and a couple of state legislative matters that are likely to be considered by the 2022 Legislature.

Federal Issues

IRS Reporting Proposal in the Federal Reconciliation Package: From time to time, the brain trust in Washington, D.C., comes up with an idea that clearly makes no sense, and I'll be discussing the latest example. The Biden administration and Treasury Secretary Janet Yellen have called for Congress to include in the federal reconciliation package a new tax information requirement for financial institutions. The NMBA strongly opposes the reporting proposal. While we support adequate funding and resources to promote compliance with our tax laws, we do not support a proposal that would generate a new trove of data that the IRS is unlikely to use or protect and impact privacy for many Americans.

The proposal would require financial institutions and other providers of financial services to track and submit to the IRS information of the inflows and outflows of every account above a de minimis threshold of $600 during the year. This proposal would create a dragnet, collecting the financial information of nearly every American and requiring significant resources to build, police, and maintain. Policymakers must consider how account-holder data would be protected and whether a program of this scale and scope infringes on the American people's reasonable expectation of privacy. The IRS experiences 1.4 billion cyberattacks annually, has had multiple data breaches, and continues to deal with the fallout of identity theft and false tax returns. Adding an entirely new set of data will likely compound the IRS's systemic problem and expose even more taxpayer data.

In addition to the challenges associated with protecting this new data, policymakers should consider the potential unintended consequences of leveraging bank relationships to execute such a large-scale and detailed reporting program. Privacy concerns are already

While we support adequate funding and resources to promote compliance with our tax laws, we do not support a proposal that would generate a new trove of data that the IRS is unlikely to use or protect and impact privacy for many Americans.

cited as one of the top reasons individuals choose not to open bank accounts. A reporting program of this magnitude would potentially undermine our local banks' efforts to reach people suspicious of working with regulated financial institutions and would push those households on the tip of banking services back into the unbanked and underbanked.

Despite assertions that his proposed program would be simple to execute and represent a low-cost mechanism to help narrow the tax gap, designing system capabilities to capture account inflows and outflows and other information is complex, expensive, and will take years. Having the raw data in a bank system does not mean it is easily complied with or produced to government specifications. The reporting system would need to apply across most, if not all, bank products – including many that do not currently require any IRS reporting and consequently do not have even the baseline analytical and reporting infrastructure needed to support this type of reporting. Additional representatives will then be necessary on an ongoing basis to assist customers and their income tax preparers in understanding this new data. This would be a significant operational undertaking, especially for community banks often dependent on third-party service providers for their system updates.

Financial institutions already report a tremendous amount of data to the IRS. It is not clear that the reported information would improve the IRS's ability to identify tax evaders or to deter evasion over and above the tools already at the IRS's disposal.

Hopefully, Congress will see the light and not include the reporting measure in the reconciliation package. But rest assured, this issue will continue to reappear in future Congressional discussions.

Cannabis Banking Bill Included in National Defense Authorization Act: Let's hope lightning will strike. I say that because a critical legislative committee in the U.S. House of Representatives has included the SAFE Banking Act, which provides clarity to financial institutions seeking to serve legitimate business as an amendment to the National Defense Authorization Act. The Act, which passed in the House in the last Congress but was not considered by the Senate, would provide a safe harbor for depository institutions serving cannabis businesses in states where such activity is legal. Currently, more than 35 states have legalized cannabis for medical or adult use. But current federal law prevents banks from safely banking cannabis businesses, including ancillary businesses that provide them with goods and services.

State Issues

Tax Deduction for Uniformed Retirees: Many bills have been introduced in the past several years to provide a deduction not to exceed $25,000 for uniformed services retirees to the State Income Tax Act. This deduction would be available for former members of the U.S. Army, Navy, Air Force, Marine Corps, and Coast Guard, and the commissioned officer corps of the National Oceanic and Atmospheric Administration. The deduction applies to uniformed services retirees who qualified either by years of service or disability to separate from the military service with lifetime benefits. The purpose of the proposed legislation is to encourage uniformed service retirees to make the state their place of residency.

Proponents argue that there are many reasons why states may exclude some income for retirees, such as lessening the economic burdens for individuals on fixed incomes and trying to attract retirees to the state. Military retirees, in particular, may be skilled workers who have retired from a first career in the military but seek a second career in civilian service.

Opponents indicated that exempting retirement income from income taxation may not necessarily help attract more military retirees. For example, Texas does not tax any income, yet the state features as one of the least tax-friendly states for retirees in the country because of its high property and sales taxes. Notably, New Mexico's property taxes are among the lowest in the nation. It is, therefore, necessary to take a holistic look at New Mexico's tax code, and attempts should be made to make the tax structure more simple, broad-based, and equitable, without being punitive to any segment of the population. It is estimated that the cost of the deduction, when fully implemented, could reach $24 million.

New Mexico is one of eight states that fully tax military pensions. Twenty states do not tax military pensions but do have a personal income tax. Thirteen more states provide partial deductions or exemptions.

State Bank: There have been rumors and discussions that state bank legislation may be introduced again. You may recall, legislation (HB 236-2021) was introduced during the 60-day Legislature and defeated soundly in the House

STATE LEGISLATIVE ISSUES *continued on page 10*

Appropriations and Finance Committee. The NMBA is strongly opposed to a state bank. The implications of creating a public bank pose risks to New Mexico's taxpayers and would saddle the State with significant, unwarranted costs to replicate a highly competitive, regulated and federally-insured banking system that exists in communities across New Mexico.

There is currently only one public bank operating in the U.S., in North Dakota. The Bank of North Dakota was chartered in 1919 to address circumstances that no longer exist in that state or anywhere else. Because it was created over 100 years ago, the Bank of North Dakota existed before most banks in that state were created. No public banks have survived in the U.S. since the Bank of North Dakota was established. Starting a public bank would consume public funds that could be used for other urgent needs such as health and safety, infrastructure and community development instead of offering financial services that are already provided efficiently by tax-paying, private-sector banks, and other financial institutions operating in a highly competitive marketplace. Public bank legislation has been considered – and rejected – in other states. The Federal Reserve Bank of Boston conducted a study of a public bank for Massachusetts in 2011. The study states, "Capitalizing a new bank along the lines of the initial size of Bank of North Dakota would require funds roughly equal to one-fifth of the state's general obligation debt" or $3.6 billion. When similar bills were introduced in Illinois and Washington State, those states estimated the costs for creating a public bank at $827 million and $155 million, respectively.

Taxation of Social Security Income: The NMBA will continue to press the Legislature to eliminate the state income taxation on Social Security benefits. For more than half a century after Social Security was enacted in 1935, Social Security benefits were not taxed in New Mexico. In 1990, the New Mexico Legislature passed a long and complex bill changing how state and federal pensions were taxed – and raising more than $13 million for state government. Buried on the second-to-last page of that bill was a single line that imposed the state's income tax on Social Security benefits. This provision received no public scrutiny. New Mexico is only one of 13 states that tax Social Security benefits, and of those states, New Mexico has the second harshest tax, costing the average Social Security recipient in New Mexico nearly $700 a year.

Taxing Social Security benefits undermines the purpose of the Social Security Act, which was designed to lift seniors out of poverty, not to fund state government. New Mexico currently ranks third-highest in the nation for the percentage of seniors living out of poverty. Social Security is the sole source of income for one in three New Mexico seniors, yet the average benefit is only about $13,900 a year. Meanwhile, the average annual cost of food, housing, and health care for older Americans is nearly twice as high: about $28,000, according to the U.S. Department of Labor. New Mexico's Social Security tax also has a negative impact on our economy. If seniors could keep the money they now pay in taxes on their Social Security benefits, much of it would be spent immediately, and those dollars would go right back into New Mexico's economy. State government would still receive significant revenues through the gross receipts taxes generated by that economic activity. Several such bills were introduced with the 2021 Legislature and all failed.

WASHINGTON UPDATE

ROB NICHOLS

PRESIDENT AND CEO
AMERICAN BANKERS ASSOCIATION

BANKING ON INCLUSION: AMERICA'S BANKS EMBRACE BANK ON MOVEMENT

America's banks have a longstanding commitment to helping reduce the number of unbanked and underbanked individuals and families in the U.S. July marked a major milestone in that endeavor, with an announcement from the Cities for Financial Empowerment Fund that the number of Bank On certified deposit accounts now available has surpassed 100. At the time this column was written, it was up to 114.

As you may recall, nearly a year ago, I challenged banks of all sizes to offer Bank On certified products, designed to promote access to financial services to the roughly 5% of U.S. households that remain unbanked. To receive Bank On certification, the account must meet specific standards, including low costs, no overdraft fees, robust transaction capabilities via a debit or prepaid card, and free online bill pay. The certification is free and the process is simple.

When I issued that challenge in October 2020, there were 43 banks offering accounts that were Bank On certified. Today, there are more than 90, with plenty more in the process of obtaining certification. In particular, we've seen a significant uptick in the number of community banks offering Bank On certified accounts. This is partly due to ABA's efforts to engage with 20 of the nation's core technology providers – including Fiserv, FIS, Jack Henry and Associates and Finastra – and encourage them to simplify the process for their bank clients to create and offer these critical products.

Today, Bank On accounts are available in more than 32,500 branches in 99 out of the 100 largest metropolitan markets and all 50 states. They have received plaudits from bank regulators and policymakers alike – and for a good reason. Research suggests that the initiative is working as intended: according to the Federal Reserve Bank of St. Louis, 75% of consumers opening Bank On certified accounts were new customers for that bank. Additionally, while these accounts have widespread appeal, CFE Fund reports that customers opened close to 60% of

Today, Bank On accounts are available in more than 32,500 branches in 99 out of the 100 largest metropolitan markets and all 50 states.

Bank On certified accounts in communities with 50% or more people of color.

The importance of having a banking relationship has never been more apparent than during the COVID-19 pandemic. From obtaining Paycheck Protection Program loans to receiving economic impact payments quickly, countless stories speak to the benefit of having a trusted banking partner – and the disadvantages of not having one.

"For a long time, we'd known that we have consumers that don't have bank accounts in our market. It could be for cost; it could be for convenience. There could be a lot of reasons. The stimulus checks brought the issue to light a little more," says Gary Kleer, CEO of First Bank Richmond in eastern Indiana, whose bank recently had its Easy-Fit Checking Account Bank On certified. "When we saw this initiative being offered, we decided to get on board so that we could offer our consumers a more safe and affordable way to handle their money."

As we strive for a more equitable and inclusive society, one of the most constructive ways banks can help move the needle is to ensure that every American has the opportunity to access the banking system. That's why the Bank On certification is so important – it signals to those who may be hesitant to come in the door and start that banking relationship that the bank offers a product they can trust to meet their needs.

Many banks are already offering checking account options to meet Bank On standards – but it's time to go the extra step and get them certified – for free – with the Bank On seal of approval. If you haven't yet, I encourage you to visit aba.com/BankOn to learn more about the Bank On movement, how to certify an account product and why other banks were motivated to get involved. ABA staff is available to meet with your bank about the Bank On process and answer your questions; reach out anytime through our dedicated inbox: bankon@aba.com.

As we strive for a more equitable and inclusive society, one of the most constructive ways banks can help move the needle is to ensure that every American has the opportunity to access the banking system.

Together, we can bring more Americans into the banking system—a crucial step toward ensuring economic prosperity for all. ■

Rob can be reached by email Rob at nichols@aba.com.

RECOGNIZING THE VALUE OF INCENTIVE COMPENSATION PLANS

By Trey Deupree, NFP

There was a time when building a top-notch management team seemed to be a relatively straightforward task. Times, however, have certainly changed. Traditional benefit programs and merit pay systems often fall short as tools for attracting and retaining such talent. Banks of all sizes compete for experienced lenders with relationships/portfolios they would like to have at their bank. With the growing demand for quality performers, how can your bank secure the management team needed to ensure maximum bottom-line results?

Traditional qualified retirement plans such as 401(k) and defined benefit pension plans have typically provided rank and file employees with retirement income equaling 70 to 90% of final compensation (when combined with Social Security benefits). Not a bad reward for years of dedicated service. Yet, the same does not hold true for most bank executives. Due to limitations on contributions and benefits, these plans often provide executives with retirement income of only 30 to 50% of final pay – far below the retirement percentages of rank-and-file employees.

In growing numbers, community banks recognize the need to enhance traditional management/director compensation packages with supplemental benefits. Whether it be stock look-alike plans, stock awards or some other form of mid- to long-term cash awards or supplemental retirement benefit, careful consideration should be given to the strategy or combination of performance-based strategies that are most appropriate. For example, a deferred compensation plan with payments paid at three to five years or timed to when the officer's children are college age can be highly valued by an officer who is not focused on a retirement benefit.

In addition, enhanced benefits such as supplemental disability or long-term care can be included. Then, when properly designed and administered, these plans can be a powerful tool in creating a more level playing field for both executives and directors and the bank itself.

Historically, many institutions made up shortfalls in executive benefits through nonqualified salary continuation plans (often called SERPs). These plans generally provide a monthly retirement benefit based on an executive's long-term service to the bank. More recently, however, banks

With the cost of benefits continuing to rise and volatile investment returns, finding a reliable benefit-financing option can be a complex task. Implementing a bank-owned life insurance (BOLI) program can help your bank offset current and future costs of existing benefits (e.g., medical, group life) and new programs (e.g., incentive deferred compensation and supplemental retirement benefits).

– recognizing the value of management incentives – have begun tying current and long-term compensation to bank performance. When properly designed, performance-driven incentive plans can:

- Align management goals and incentives with the annual strategic goals of the bank.
- Focus executives and employees in the areas that are key to the success of the bank in the short term and long term.
- Allow executives to share in the bank's success.
- Provide competitive compensation.
- Enable the bank to attract, motivate and retain top talent.

While performance-driven benefit strategies can take various forms, they must comply with regulatory guidance on incentive compensation plans by providing incentives that appropriately balance risks and rewards in a manner that does not encourage imprudent risk-taking. Incentive plans should have earnings-based goals and strategic goals such as asset quality, capital raising, and core deposit growth. Plans that focus solely on earnings-based goals could encourage a focus on short-term profit without adequate consideration of risks.

Striking the proper balance between plan attractiveness to executives without excessive expense is also significant when designing the benefit plan. Financing employee benefits is a costly endeavor for banks of all sizes. With the cost of benefits continuing to rise and volatile investment returns, finding a reliable benefit-financing option can be a complex task. Implementing a bank-owned life insurance (BOLI) program can help your bank offset current and future costs of existing benefits (e.g., medical, group life) and new programs (e.g., incentive deferred compensation and supplemental retirement benefits).

Approximately 72% of New Mexico banks have implemented BOLI as a strategy to recover the cost of employee benefit plans based on FDIC data as of the first quarter of 2021. Our research, conducted in July 2021, shows that BOLI is an earning asset that currently generates a return in the range of 2.60% to 3.10% after all expenses are deducted, which translates into a tax-equivalent yield of 3.29% to 3.92% (assuming a 21% tax bracket). With its ability to minimize earnings pressure – while balancing liquidity and risk factors, as well as hedging against rate sensitivity – BOLI has emerged as a preferred financing vehicle for banks of all sizes.

The significant potential financial impact when your bank loses key employees or cannot attract additional resources quantifies and underscores the value and importance of retention, so it is critical that executives meaningfully and competitively compensate these employees. Banks without a strong corporate culture and a competitive compensation plan in place are at a higher risk of losing key employees and may have a potential retention problem.

For a complementary analysis of effective compensation plans or a copy of recent educational presentations, please contact Trey Deupree, 972-672-8245 or Trey.Deupree@nfp.com.

Jay Jenkins, Ken Clayton, and Friends


John Anderson and Jason Wyatt

THE NEW MEXICO BANKERS ASSOCIATION 109TH ANNUAL CONVENTION

The New Mexico Bankers Association held its 109th Annual Convention on August 25-27 at the lavish Ritz Carlton Grande Lakes Hotel in Orlando, Florida. For many, this was the first time in nearly two years that we've had the opportunity to travel and enjoy face-to-face interaction with our fellow bankers, sponsors, and vendors.

NMBA President Jason Wyatt said our goals for the convention were to attempt to regain a sense of normalcy, enjoy each other's company out of a computer screen, and to learn from some exceptional speakers. It was the consensus of all in attendance that Jason's mission was accomplished and more.

Special thanks to all bankers, spouses, sponsors, and vendors who made the 109th Convention very special.

SILVER SPONSORSHIP: $1,000

- Wespay
- NFP

GOLD SPONSORSHIP: $2,000

- ABA
- ePay Resources

PLATINUM SPONSORSHIP: $2,500

- Federal Home Loan Bank of Dallas

EMERALD SPONSORSHIP: $3,000

- ADT
- BHG
- CLA
- Federal Home Loan Bank of Dallas
- Southwest Capital Bank

DIAMOND SPONSORSHIP: $5,000

- Western Commerce Bank

Jason Wyatt

VENDOR EVENTS

Company

BHG
ADT
Transfund
Unitas Financial Services
StrategyCorp
JMFA

Jason Wyatt and Family

AMERICA'S HIGHER EDUCATION CONUNDRUM

By Mark Anderson, NMBA Legal and Legislative Assistant

In June 2021, the National Student Clearinghouse Research Center released its Spring college enrollment data. The Spring 2021 semester found that college enrollment had dropped nearly 5% overall, a jarring decrease. This means there were approximately 727,000 fewer students than the year prior. There was hope that the spring semester would increase enrollment, but that didn't prove the case. Now, given a myriad of factors, there is concern that the decrease in enrollment in higher education could become a permanent issue barring significant changes.

This data illustrates an acceleration in an overall decrease in college enrollment that has been occurring since 2012. Some of this decrease can be attributed to both the health and economic uncertainty surrounding the COVID-19 pandemic, but there are clearly deeper factors at work as well. There's no doubt that a college degree, in a vacuum, is an overwhelmingly positive accomplishment. But because higher education in the United States is so expensive, the choice for individuals to attend college usually doesn't occur in a vacuum.

The pandemic has shown the value of a college education in America on both earning potential and the ability to weather economic hardships. Individuals with a college degree have been far less likely to lose their jobs during the pandemic and, if they have, had a much higher likelihood of finding another job. According to the Clearinghouse Research Center, "Almost all of the income gains and employment gains for the last decade have gone to people with higher education degrees and credentials." There are tangible benefits to earning a college degree, but the cost and subsequent debt that can result are substantial factors prospective students must weigh.

According to Federal Reserve estimates released in early September 2021, Americans owed a stunning $1.73 trillion in student loans, a 3% increase compared to quarter two of 2020 despite a lengthy pause on federal student loan interest rates and the elimination of billions of federally held student loans by the Biden administration. The situation has been exacerbated just in the last decade, as Americans owed $905 billion in student loans in 2011, meaning that student debt has increased by 91% in just the last decade. Millions of students in the United States are faced with the choice of not going to college – which damages one's earning potential – or entering a state of crippling permanent debt.

In most states, the average debt graduates face is well over $25,000, with some states exceeding $35,000. If you have $35,000 or more in debt, you face extremely long odds of achieving financial stability. You will have to

In most states, the average debt graduates face is well over $25,000, with some states exceeding $35,000.

scratch and claw just to make it to square one. You are put in a position to find an extraordinarily high-paying job, which is difficult to find. Having a large amount of student debt essentially causes a domino effect of economic and social instability. The cost of college in this country deters many people from seeking higher education and places many who pursue one in an untenable position.

In recent months, four student loan servicing companies have ended their contracts with the U.S. Department of Education, causing much uncertainty leading to the resumption of repayment for federal student loans scheduled for the end of January 2022. Since federal student loan payments and interest have been paused for over 18 months, tens of millions of borrowers will be resuming repayments simultaneously, an unprecedented event. Adding to the complications following the long pause is a tremendous upheaval in student loan debt servicing, which usually causes problems like lost records and missed payments. Advocates for student loan debt borrowers have used this opportunity to call on the Biden administration to cancel vast amounts of student debt. So far, those calls are falling on deaf ears.

We have now reached the point where higher education feels like a complete pipe dream for vast swaths of Americans. Instead of presenting it as it should be, an open opportunity for all who care to partake, higher education in America has largely been presented as an exclusive club where you can enter a different stratum of society. Beyond what you learn there, many people who go to college view it as a place where they internalize a set of manners and patterns of professional behavior. The cost of college and the sense of exclusivity and learned behaviors that come with it lead to tremendous division between the college-educated and those who haven't attended.

It is also highly worrisome that, as a country, we are constructing so many barriers to higher education and subsequent economic stability that many young people are questioning whether going to college is worth it. In a vacuum, ignoring the costs and other collateral factors, a college education is a positive achievement that can only help an individual. But we have attached so many external factors to a college degree that the entire discussion has been muddied. When a high school graduate is faced with the choice of not attending college or accruing over $50,000 in debt to go, that is an incredibly difficult position to be in.

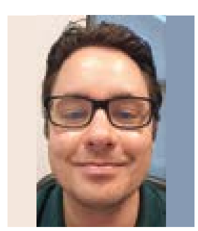
During the pandemic, it became clear that there remains a lack of trust between many average Americans and institutional expertise. I believe a major element of this division is how increasingly inaccessible higher education has become and, in turn, the belief that many universities are exclusive clubs to essentially learn a set of beliefs that distance you from the unwashed masses. College should be viewed predominantly as a place where you can grow emotionally and intellectually as a young adult, but the cost attached to it has distorted its true purpose. By accompanying a college education with this overwhelming cost, we have managed to bring the effectiveness of that education into debate. Is it the education itself or the cost that is being questioned? It's obviously the cost, but it's easy to conflate the two and muddy the waters. Attaching massive costs to college education only makes most average people question the efficacy of it, not become more likely to pursue one. It has massively negative consequences on the way society views higher education.

When you see a trend like a 5% overall decrease in college enrollment, you have to ask the question, "Why?" Is it that people are becoming more cynical about college, or is it because the cost attached to higher education is making people cynical about the entire experience? It's clearly the latter. Currently, small policy measures are being taken in an attempt to solve the problem. Recently, the Department of Education addressed the Public Service Loan Forgiveness (PSLF) program by making its requirements less onerous. Under current law, borrowers can only see their federal student loans wiped out through the PSLF program if they meet the following criteria: hold a public sector job, participate in a repayment plan, and make 120 on-time student loan payments. That might sound simple; however, most borrowers find themselves coming up short of the legal requirements. Making the program easier to navigate is an example of incremental change lawmakers are willing to do. Bold, systemic action is currently not in the cards.

Huge decreases in higher education enrollment are not a good sign for a country. A less educated society means a less empowered society. When young people see family and friends dealing with mountains of student loan debt that control their lives, that will not make them more likely to pursue a college degree. It's going to make millions of high school graduates say things like, "I may not have a college degree, but at least I don't have tens of thousands of dollars of debt." This genuine concern has been exacerbated by the pandemic.

There must be bold action within the next decade to make college, both community and four-year, more affordable and, ultimately, change the perception of it. For a society to achieve even a fraction of its potential, there must be trust between its citizens and its institutions. A huge step in regaining some of that trust would be to make higher education more affordable and accessible.

Mark Anderson is a Legal and Legislative Assistant for New Mexico Bankers Association.



ONE STEP CLOSER TO INSTANT PAYMENTS WITH THE FEDNOW℠ PILOT PROGRAM

By Jay Kenney, SVP & Southwest Regional Manager for PCBB

The Federal Reserve's development of its instant payment infrastructure, the FedNow Service, is making "good progress," according to FedNow Program Executive Kenneth Montgomery. The industry-wide launch timeline has moved to 2023, and the pilot program started with various financial industry players, including PCBB. FedNow will increase the instant payment service options for financial institutions and their customers.

As one of 120 pilot program participants, PCBB has an opportunity to provide feedback on service implementation and how community banks would use this solution and shape the direction to ensure the payment rails are cost-effective to implement. PCBB hopes to help other community bankers by being an intermediary, so they won't need to expend their own time and labor while getting the benefits of a new payment service.

"We are thrilled to be a participant in the FedNow Service pilot program. This gives us an opportunity to assist the Federal Reserve in developing an instant payments strategy, roadmap, and various approaches for adoption for the industry," states Sonia Portwood, EVP, Business Development and Strategic Execution of PCBB.

The FedNow Service will be developed in phases so that testing and learnings can be folded in during development

and advanced customer experience features can leverage technology innovations.

Program phases

- **Initial launch** will provide core clearing and settlement functionality to facilitate the most popular uses, such as instant account-to-account transfers and bill pay.
- **Subsequent phases** will enable instant payment for additional types of uses, as well as extra features related to fraud prevention, error resolution, and case management.
- **Future phases** will include other features as program testing provides more information about what the industry needs and additional technology modifications that may be required.

How it will work

This instant payment service will initially be open to those depository institutions with accounts at the Federal Reserve's 12 Reserve Banks and 24 branches in the United States. The Federal Reserve's broad reach, based on connections and customer service relationships with more than 10,000 diverse financial institutions across the country, will support a nationwide infrastructure for these instant payments.

Compared with other payment methods, FedNow will expedite the settlement time tremendously. Currently, other faster payment options, such as same-day automated clearing house (ACH), are processed through the Fed's platform, and the settlements happen in batches, being settled a few times per day. With the FedNow Service, the recipient would have access to the funds in less than 30 seconds.

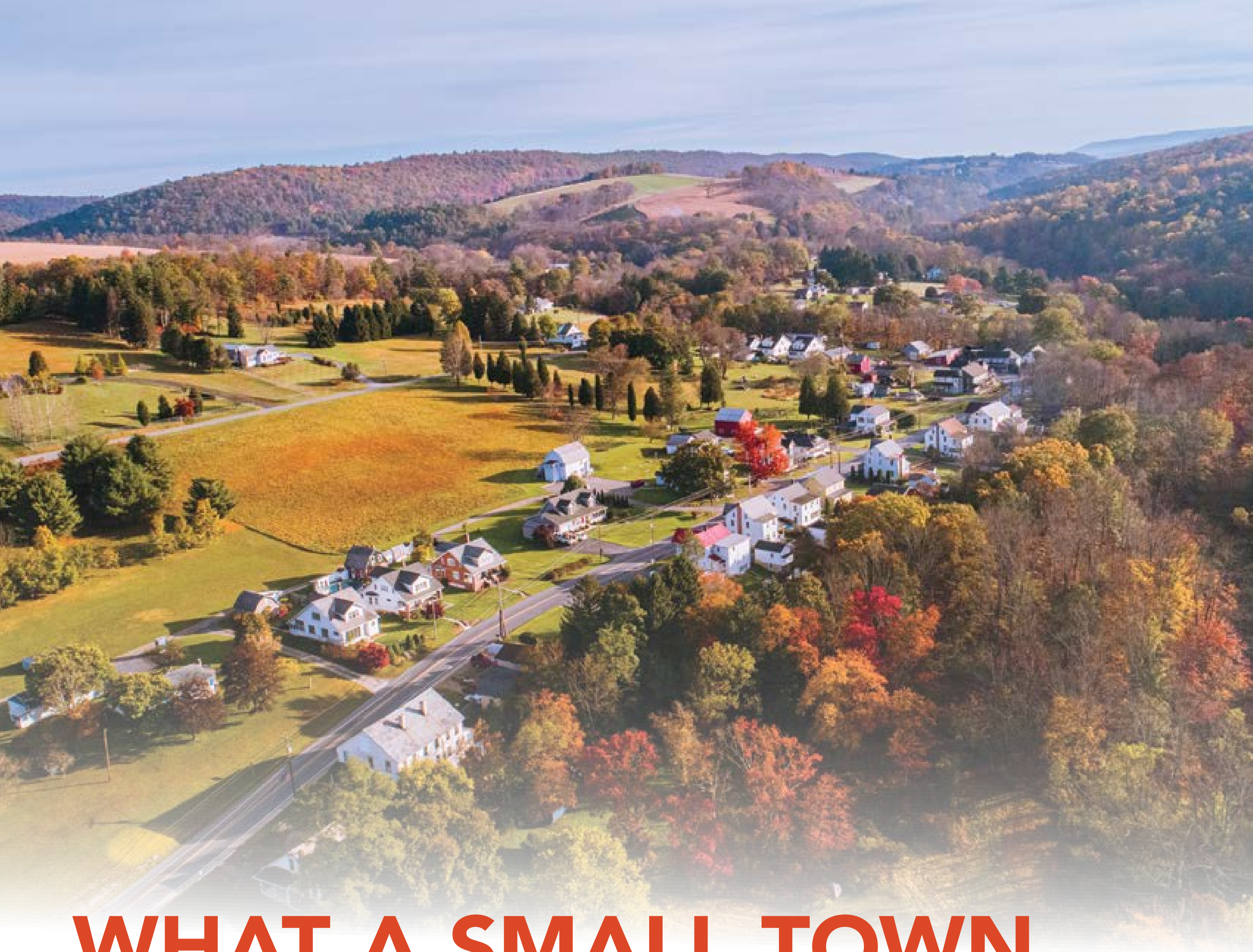
Business use cases

The FedNow Service will give community banks the ability to provide instant payments to their customers, effectively leveling the playing field. This allows them to better compete with fintechs as well, which have been dominating in this space. Furthermore, it lets businesses more effectively manage their cash flows in that they can deposit and withdraw funds immediately, as needed. This instant payment system will save businesses time, too.

Allen Sztukowski, SVP of Operations at PCBB, notes, "Business use cases involving real-time payments with FedNow have a tremendous potential, both in terms of volume and efficiency gained for all parties."

The FedNow Service instant payment system is on course and moving full steam ahead. As a pilot participant, we look forward to assisting with the developments needed to satisfy the payment needs of community banks and customers alike. ■

Jay Kenney is a Senior Vice President and Regional Manager at PCBB. You can reach him at jkenney@pcbb.com.



WHAT A SMALL TOWN TAUGHT ME ABOUT ARTIFICIAL INTELLIGENCE

By Neal Reynolds, President, BankMarketingCenter.com

As a community bank, nothing is more important to your success than understanding your customers and delivering value. What's different today? There was a time when understanding your customer's needs and overall financial behavior was, well, easy. Unfortunately, that's simply not the case anymore.

For a long time, community bankers achieved this customer insight by interaction. If you're old enough to be reading this and grew up in a small town, I'm sure you remember. I do because that's how I grew up.

This past January, Business Insider talked about the tremendous impact that AI can have on a bank's customer experience. "Banks can use AI to transform the customer experience by enabling frictionless, 24/7 customer service interactions." The Insider goes on to say that banks can, and are, "using AI to deepen customer relationships, and provide personalized insights and recommendations."

You've seen "It's a Wonderful Life," right? Remember when Potter questions the loan that George has approved for Ernie, the cab driver? "I can vouch for his character," George tells Potter. Having grown up in a small town, not terribly unlike Bedford Falls, I had a very similar experience myself, many of them, in fact. When I was ready for my first car loan at age 18, Mr. Jepson, the kind gentleman who ran our local community bank, didn't need me to fill out a loan application, survive a host of credit checks, or have a bunch of agencies confirm that I wasn't a criminal. He knew my parents, my grandparents, and all my family. He knew I had a steady job at the IGA grocery store, was headed off to college and was in church on Sundays and Wednesday nights; he knew all about me.

Those days are gone. Vouching for someone's character just isn't an option anymore. With online and mobile options, customers no longer walk into their local branch and do all their banking there. The insights that bankers need, that they used to get through interaction, are tough to get. Instead of that personal cooperation to gain those insights and act upon them, bankers now rely on Data, Artificial Intelligence (AI) and Machine Learning (ML) technologies.

This past January, Business Insider talked about the tremendous impact that AI can have on a bank's customer experience. "Banks can use AI to transform the customer experience by enabling frictionless, 24/7 customer service interactions." The Insider goes on to say that banks can, and are, "using AI to deepen customer relationships, and provide personalized insights and recommendations." Thus, artificial intelligence is now gathering and analyzing the data that a banker's "real" intelligence once gathered and analyzed in order to know the customer. Today, without personal interaction, that customer is a "persona," an AI/ML-generated individual who can be used to predict behavior and personalize an experience.

Creating personas is nothing new and, unfortunately, in a pre-AI/ML world, have been developed using assumptions and/or simply on past actions such as purchases. The drilled-down insights that AI/ML provides can help bankers develop a far more accurate picture of their customer's identities and behaviors. In the article, 10 Ways AI Can Improve Digital Transformation's Success Rate, Forbes states, "using AI to better understand customers, personas need to be the foundation of any digital transformation initiative. The most advanced uses of AI for persona development combine brand, event and product preferences, location data, content viewed, transaction histories, and, most of all, channel, and communication preferences." In short, you not only know the "what" about your customer, but the "when, where, why, and how," as well.

Despite its necessity, the implementation of these technologies in banking is still something that most banks are "planning for." Why has this transformation in customer data management taken so long? The legacy data solutions so pervasive in today's banking industry cannot be transformed quickly, easily or inexpensively. As a result, a growing number of community banks have looked to multiple core and edge systems for gathering, analyzing and reporting. The integration of these systems, though, is time-consuming and costly. So time-consuming, in fact, that it's quite possible the data gathered can be obsolete by the time the integration is complete.

Through these advanced consumer profiles and AI/ML's predictive analytics, you're far better equipped to reach the right customer in the right place at the right time with the right message. It's almost a return to those Bedford Falls days when you knew the cab driver well enough to approve a loan application based on knowing his character, but not quite. Unfortunately, "personalization" through technology will never be the same as personalization through personal interaction. But, this is the world in which we now live. ■

To view campaigns, visit bankmarketingcenter.com. Or, you can contact Mr. Reynolds directly by phone at 678-528-6688 or email at nreynolds@bankmarketingcenter.com.

DIGITAL ACCELERATION OF BUSINESS PAYMENTS

By William J. Schoch, President & CEO, Wespay

In the first half of 2020, the business outlook for many industries was uncertain. The abrupt decline in consumer demand caused many small business owners and corporate treasurers to seek the safety of increased liquidity and to pursue efficiency in cash flows. Since then, we have seen a dramatic change in business payment practices, prompting many community banks to reevaluate their current payment solutions and reconsider future investments.

First: Checks Decline

One of the initial and most dramatic changes has been the sharp decline in check writing. Some organizations had limited access to check stock, printing equipment, and adequate staffing to maintain the appropriate controls of the process. Stories abound of creative solutions implemented to ensure security in the issuance process and the physical safety of all involved personnel. Check volumes quickly declined and remain low. Business check writing is estimated to have dropped between 25-35% year-over-year at peak periods in 2020.

The next question naturally emerges: Is this a temporary situation or the realization of an accelerated digital migration for business payments?

The Association for Financial Professionals (AFP), a trade group of corporate treasury and finance professionals, conducted an online survey of its members in the fall of 2020. The survey sought to understand how organizations were planning to handle business-to-business (B2B) payments.

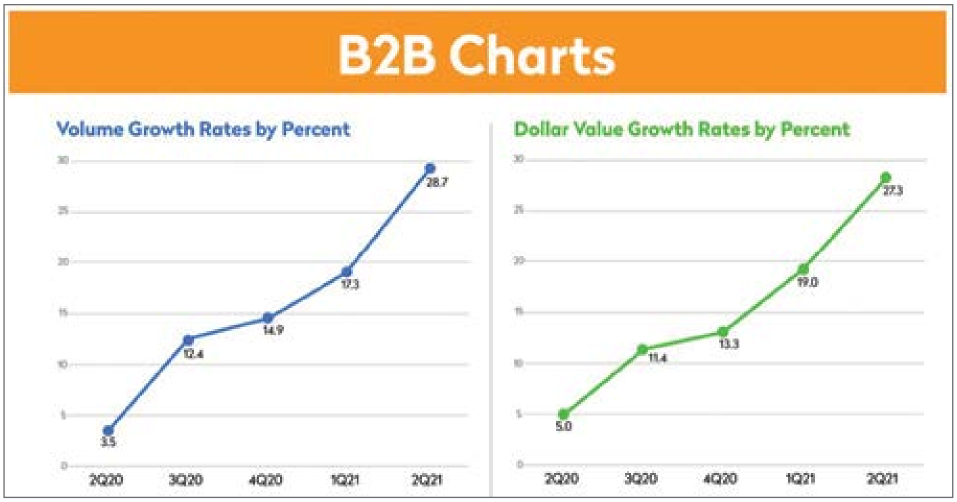
Illustration Source: 2020 AFP Payment Survey, A Snapshot of Electronic Payments and Payments Fraud at Organizations

These results seem to validate the observed decline in check writing. One-third of responding AFP organizations claim to currently issue a majority of electronic B2B payments. Clearly, the movement to electronic payments is not a new trend, as the B2B migration first emerged in the 1990s. However, the evolution has been slow and incremental. Until recently.

The more important finding in this same survey is that nearly 60% of responding organizations are very likely to prioritize electronic B2B payments, which indicates we may be seeing only the tip of the iceberg. We may be in the midst of a digital migration of business payments, unlike any previous change we have seen in this user segment.

Second: Electronic Payments Surge

So, if checks are declining, what payment methods are being used for B2B payments? One clear benefactor is the ACH network. In the second quarter of 2020, B2B payments in the ACH grew in the low single digits. That volume quickly grew to double digits in the second half of 2020 and is approaching 30% year-over-year growth in 2021.



Source: Nacha, More to the Numbers: What the Results Tell Us, August 19, 2021

The ACH Network has long been an attractive alternative to checks because of lower processing costs and the inherent convenience of directly depositing funds to a bank account. Businesses are now seeing a related benefit in their internal processing. In the 2020 AFP Payments Survey, nearly half of the respondents claim that the straight-through processing of AP or AR and general ledger is the primary benefit of electronic B2B payments. The internal management and reconciliation of business proposals/ RFP data, invoices, payments, and remittance details are challenges for businesses, and electronic payments provide significant efficiencies. Another benefit of electronic payments is the improvement to cash forecasting, which has been a critical corporate treasury element during our recent cycle of uncertainty.

Third: From Electronics to Faster Payments

The digital migration of B2B payments reflected in the recent ACH Network data may be part of a continuing migratory path. According to a survey by the Federal Reserve of over 2,000 businesses, 75% of companies consider the speed of money movement important and prefer faster payments.

For those businesses that have adopted the ACH Network for B2B payments, recent developments make the ACH an attractive faster payments option. A significant ACH change in 2016 facilitated money movement the same day. In March 2021, this was further enhanced and allowed financial institutions to send ACH transactions to the Fed as late as 2:45 p.m. Mountain Time (MT) for settlement at 4 p.m. MT. Many community banks are exploring Same Day ACH as a service option for business customers.

We expect the ACH changes implemented earlier this year, and the increased participation from banks across the Western U.S., will result in service innovation. Same Day ACH supports both debit and credit entries up to a maximum value of $100K per payment. The dollar threshold can accommodate 97% of all ACH B2B payments and a higher percentage of payments in other use cases. Nationwide, Nacha recognized 82% growth between 2Q 2021 and 2Q 2020, and nearly 149 million Same Day ACH transactions were processed in the quarter. This growth rate is double the growth rate in similar periods between 2020 and 2019.

Also emerging is a new category of "instant payments" that allows the transfer of good funds between financial institutions in a matter of seconds. The Clearing House implemented the Real-time Payments (RTP) network in late-2017 and now has over 150 banks participating. RTP facilitates 24x7x365 push credit payments that are irrevocable after submission.

In 2019, the Federal Reserve announced its intent to build a competitive solution to RTP, called FedNow. The FedNow service is slated for implementation in 2023 and will include many of the same characteristics of the RTP service. In fact, both the Fed and The Clearing House worked extensively to align the messaging standards and optimize compatibility of the two services. Both organizations realize that most U.S. financial institutions are not resourced to build multiple new payment services.

Both the FedNow and RTP solutions provide many of the benefits corporate finance professionals seek in their current operating environment and hold great potential for growth in the near term.

Next: Future Investments

When meeting with community bankers, I hear about the abundance of new opportunities and the challenges in determining where to commit the limited resources of time and money. These are never easy decisions but listening to our customers is typically a good start. Talk to your business clients and explore if their journey is similar to the one outlined here. Observed trends help to make those investment decisions easier and may support a client-centric ROI. ■

wespay

William Schoch is President & CEO of Wespay, the nation's oldest and one of the largest associations dedicated to helping members grow and improve their use of electronic payments. He is responsible for developing and implementing strategic initiatives to grow the association and provide maximum value to its 1000 members. He was appointed to this position in 2008.

In 2016, Bill was the incorporator of Wespay Advisors, a wholly-owned subsidiary of Wespay, which provides payments consulting and risk management services. He serves as a Director and the Secretary of the Wespay Advisors Board.

For more information, please call Bill at 415-373-1184, or email him at wschoch@wespay.org.

BANK NEWS

NMBA Associate Member Abrigo, Announces Strategic Growth Investment from Carlyle

Abrigo, a leading technology provider of compliance, risk, and lending solutions for financial institutions, announced today it secured a strategic growth investment from funds managed by Carlyle. Abrigo will use the investment to accelerate its commitment to helping financial institutions manage risk and drive growth. Abrigo's current majority investor, Accel-KKR, will retain a significant equity stake in the Company and partner with Carlyle to support the Company's long-term growth plan.

Headquartered in Austin, Texas, Abrigo provides market-leading software solutions to enable its customers to comply with ever-changing regulatory compliance requirements, process loans faster and more efficiently to drive growth and profitability, and leverage data to provide insights to their customers. The Company serves over 2,300 customers and has experienced significant momentum with revenue growth of over 30% year-over-year.

MFA's Hernandez Elected to National Council of State Housing Agencies

Isidoro "Izzy" Hernandez, New Mexico Mortgage Finance Authority Executive Director, was recently elected to the board of directors of the National Council of State Housing Agencies.

In December 2019, Hernandez was named as MFA's sixth Executive Director/CEO, bringing a wealth of experience and institutional knowledge to the position. In addition to his work at MFA, Hernandez served in the New Mexico Army National Guard for 32 years, retiring as a colonel in 2016. He attended the Senior Service College (aka War College), had two deployments and commanded as many as 1,000 soldiers at the brigade level.

The New Mexico Mortgage Finance Authority is an associate member of the NMBA. ■

In Memoriam: Former New Mexico Banker Tom Battin

Former New Mexico banker Tom Battin passed away earlier this year at the age of 85. Tom attended Texas Tech University, earning a Bachelor of Arts degree in Economics and Finance in 1958, and earned a graduate degree in Banking Management from Southern Methodist University.

Tom's primary career was as a community banker in West Texas and New Mexico, notably at Ruidoso State Bank in Ruidoso, New Mexico. He often guided those institutions from receivership status to that of health and stability. He served on more than 25 boards, including financial institutions, hospitals and various philanthropic endeavors. Tom was also active in many Christian organizations. His desire to serve others was exemplified by his eight-year term on the Lincoln County, New Mexico Board of Commissioners, serving a number of years as its Chair. He spent a portion of his post-retirement years as a banking strategist and in public relations.

Tom married Juanice Turner in 1957, and they became parents of two children, Rhonda and Kevin. Tom and Juanice called Ruidoso home for more than 25 years.

NEW MEXICO
BANKERS DIGEST
PUBLISHED BY NEW MEXICO BANKERS ASSOCIATION, FOUNDED IN 1906

New Mexico Bankers Association
316 Osuna NE, Suite 502
Albuquerque, NM 87107

PRSRT STD
U.S. POSTAGE
PAID
SALT LAKE CITY, UT
PERMIT NO. 508

This magazine is designed and published by The newsLINK Group, LLC | 855.747.4003