NEW MEXICO

ISSUE 4, 2021

BANKERS DIGEST

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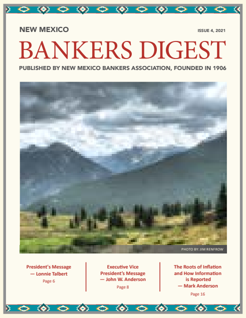

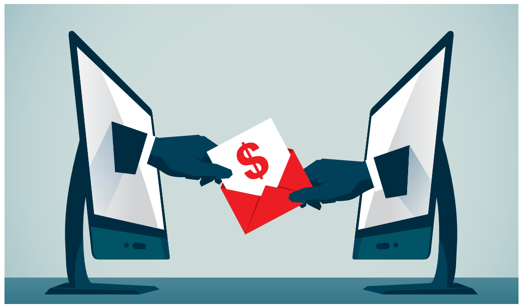

Our Mission

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.

PRESIDENT'S MESSAGE

LONNIE TALBERT

PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

I look forward to hopefully seeing you in person in 2022 and want to thank our NMBA board of directors along with John, Debbie, and Mark for their great service to our member banks. Be safe, healthy, and stay frosty.

VISIT OUR WEBSITE AT:

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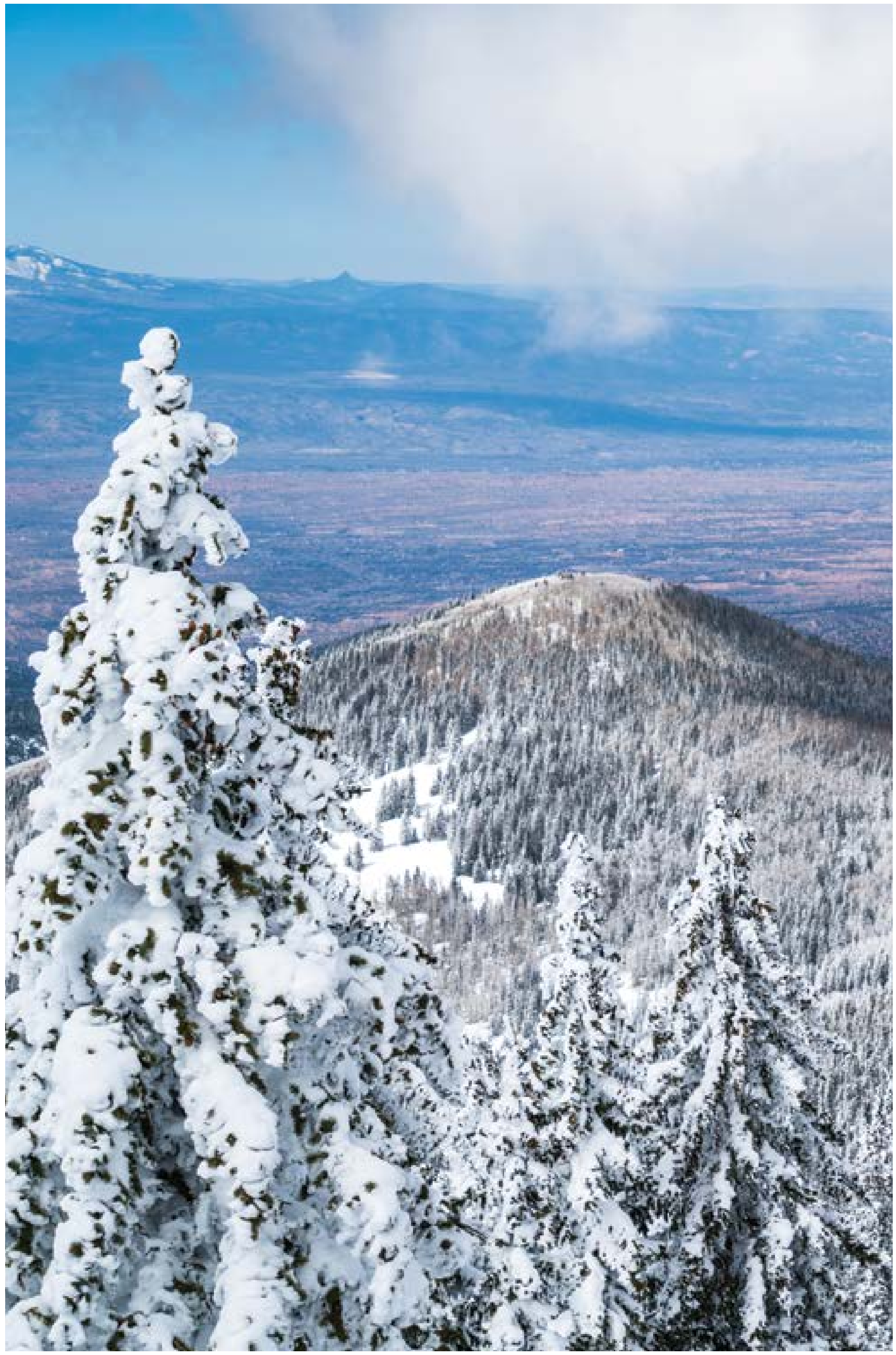

Hello fellow bankers, well wishes for a joyous and prosperous New Year. As we close out 2021 and embark upon 2022, it is always important to look back and take inventory of all the things we have to be grateful for and look ahead with optimism to the new year.

The year 2021 was another strange one for most of us. A COVID-19 vaccine was developed and rolled out to help combat the deadly virus, so there was hope we would put this global pandemic behind us. We quickly found out that COVID was not going away so easily and it would take much longer than anticipated to win the battle. In New Mexico, we saw some return to normal, mask mandates lifted for a while and health orders relaxed. Airline travel increased and restaurants reopened. Small gatherings, summer vacations and

BBQs, Halloween and Thanksgiving with friends and family all occurred again. However, as bankers, we continued to deal with the fallout of an economy full of stimulus cash, shortage of employees, low demand for loan products, and the continued threat of government overreach. We must stay optimistic and believe we will persevere through these challenges and be stronger and better-equipped to crush 2022.

In other news, our team of top NMBA bankers took a trip up north to Sante Fe and met with the Legislative Finance Authority Oversight Committee regarding the yearly public bank discussion. I am happy to report the committee did not endorse the proposed public bank. Great news and a win for the good guys. In addition, the State of New Mexico reported receiving 1,500 applications for adult-use cannabis licenses. I do not believe the state will approve anywhere near this number of licenses; however, it is important to understand the demand created by this newly legalized industry.

Finally, cybersecurity continues to be a hot topic for banks and one we must all be diligent about all the time. If you have not already done so, schedule an IT audit in 2022 and have them review your cybersecurity insurance policy, attempt to hack into your system, contact penetration testing, phishing with your employees and overall IT system health. New FFIEC guidance has been issued along with the ensuring use of the Cybersecurity Assessment Tool to help with assessing system threats.

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EXECUTIVE VICE PRESIDENT'S MESSAGE

JOHN W. ANDERSON

EXECUTIVE VICE PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

Much of the state's revenue windfall is due to record high oil production and high oil prices, in addition to improving economic activity in retail and some other sectors.

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2022 LEGISLATURE GETTING UNDERWAY — MONEY, MONEY, MONEY

The 2022 Legislature will get underway on Tuesday, Jan. 17, for 30 days. Although this session will primarily be devoted to budget and revenue matters, we anticipate there will likely be legislation introduced that will be of concern to our industry and other bills that we can support.

In August, revenue estimates released by executive and legislative economists projected legislators could have $1.4 billion in new money available for the next budget year starting in July 2022. The new money is calculated as the difference between expected revenue and the state's current $7.4 billion budget. The revenue total does not include the $1.1 billion in federal funds from the American Rescue Plan Act. The New Mexico Supreme Court recently ruled that the governor cannot spend those funds without legislative approval. Consequently, those federal dollars will likely be included in the state budget bill for expenditure in the next state fiscal year. Although much of those plans were appropriated by the legislature during the December special session of the legislature.

In late November, state economists announced revenue levels were approximately $30 million greater than the August forecast. Much of the state's revenue windfall is due to record high oil production and high oil prices, in addition to improving economic activity in retail and some other sectors. Higher than expected personal income tax collections also added to the robust revenue picture.

In a recent report from the New Mexico Tax Research Institute, it was reported that the New Mexico oil and natural gas industry provided $5.3 billion in state and local tax revenue for fiscal year 2021. This is the highest amount recorded in New Mexico history.

As a reminder, the 2022 session, as with all 30-day sessions, is limited by the state constitution to bills dealing with state budget and revenue issues (appropriations and tax measures), legislation the governor asks the legislature to address, and bills vetoed by the governor in the previous legislative session. If legislation is introduced that was not in one of those categories, it is not considered "germane" and therefore not allowed to move through the process. However, this limitation does not apply to proposed constitutional amendments, which can be introduced in any legislative session, require only a majority vote in both chambers, and are not subject to approval or veto by the governor. Memorials and resolutions are also allowed in the short session.

Oil and Gas Report

In a recent report from the New Mexico Tax Research Institute, it was reported that the New Mexico oil and natural gas industry provided $5.3 billion in state and local tax revenue for fiscal year 2021. This is the highest amount recorded in New Mexico history. Revenue increased more than $500 million from fiscal year 2020 on production growth and improving market conditions, as New Mexico also became the second-largest oil producer in the United States.

The $5.3 billion in 2021 revenue surpassed the previous industry record of $5.16 billion set in fiscal year 2019. The industry's taxes and revenue support $2.96 billion in state general fund revenue, $358 million in local taxes, and $1.95 billion in other state taxes, royalties, and revenues. Revenue from federal mineral leasing remains the largest single source of income at $803 million, down slightly from $811 million in fiscal year 2020. Higher than average production coupled with improving market conditions were the primary drivers of revenue growth.

Industry revenue accounts for 35% of the general fund, supporting all areas of state spending such as education, public safety, economic development, healthcare, among others. Public schools continue to be the largest beneficiary of oil and natural gas revenue, with $1.04 billion going to public education and $275 million going to New Mexico universities, colleges, and other institutions of higher education.

New Mexico Banks' Economic Impact

Banks support New Mexico's economy with consumer, business, and other loans and by providing more than 8,000 residents with a great place to work. The following statistics based on 2020 data point out how important banks are to New Mexico:

- **Employment**
  - 8,274 employees
  - $838.5 million in total annual compensation and benefits
  - 32 banks headquartered in New Mexico
- **Lending**
  - $5.1 billion in new home loans booked in 2020
  - 20,855 new home loans in 2020
  - $205,000 in median new loan amount in 2020
  - $2.1 billion in Paycheck Protection Program (PPP) loans facilitated
  - 19,155 PPP loans
  - $30,508 median PPP loan
  - 257,700 jobs supported by PPP
- **Customers**
  - $39 billion in deposits
  - 1.8 million customers
  - 56 banks operating in branches
  - 448 branches and offices
- **Community Support**
  - $41 million in community donations
  - 49,100 volunteer hours

Public Bank

In October, several bankers, including Lonnie Talbert, Jay Jenkins, Jason Wyatt, Angel Reyes and Jed Fanning testified before the Legislative Finance Authority Oversight Committee against creating a public bank. As part of our testimony, we suggested that before the legislature is asked to consider the merits of a public bank, members should consider the issue as if the state were creating a de novo bank. Consequently, there should be a requirement that the organizers follow the FDIC and NM Financial Institution requirements for organizing de novo banks. Specifically, the requirements for de novo banks stipulate:

- Submit an application to FDIC and NM Financial Institutions Division (FID) to include:
  - A mission statement
  - A business plan with three years of financial projections
  - Policies for loans, investments, and other operations of a de novo bank

EXECUTIVE VICE PRESIDENT'S MESSAGE *continued on page 10*

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- Regulators will review applications and recommend any modifications
- A de novo bank may open only after receiving approval from the FDIC and FID

Regulatory Orders:

All de novo banks are subject to no less than one order proving that regulatory requirements are met and are issued concurrently with approval to open

A. FDIC order includes that deposit insurance is approved and remain in place for seven years
B. FID order provides charter is approved and contains provisions similar to the FDIC order

Order Provisions:

- Unique to each de novo bank with some provisions being satisfied before the bank opens and other provisions are ongoing requirements

Compliance with Order:

- Noncompliance with order to include monetary fines against bank, board, and senior management

Ongoing Provisions:

- Order sets minimum capital level and capital should never decline below the minimum
- Must adhere to the business plan and the bank must operate within FDIC-approved business plan

Deviations:

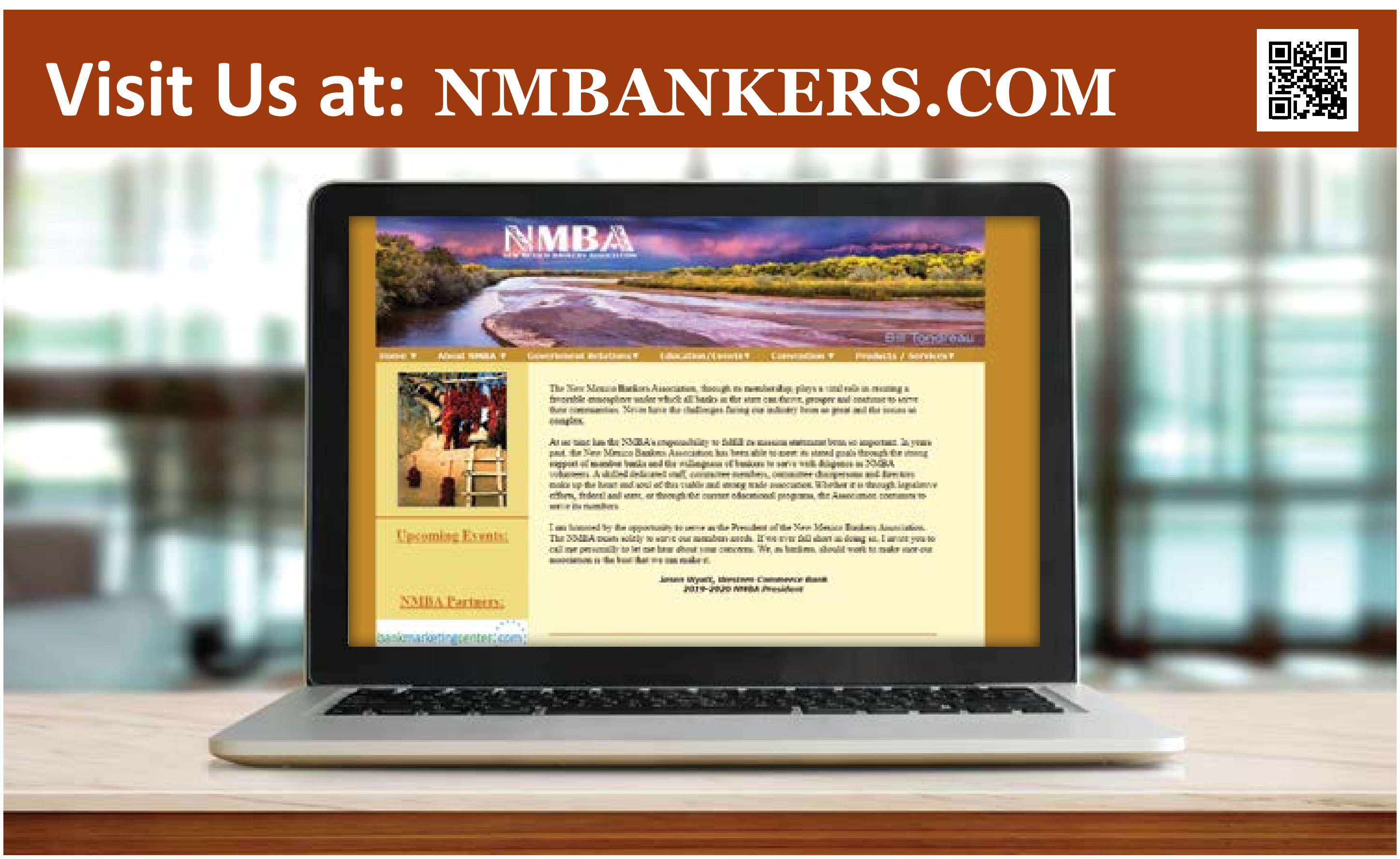
- Deviating from a business plan is the most common deviation
- All orders granting deposit insurance require a bank to receive prior approval from FDIC before any deviation
- Banks must contact FDIC immediately to discuss areas deviated from without prior approval

Deviations That Require Prior Approval:

- Changes to the balance sheet of off-balance sheet
- Changing funding structure
- Lending outside of approved activities

Ultimately, the legislative committee chose not to endorse the state bank legislation. However, we anticipate that public bank legislation will be introduced in the 2022 Legislature.


Empowering the Local Economy
Enchantment Land CDC is a local non-profit that assists in the growth and development of small businesses in New Mexico and El Paso, offering local expertise and local decisions on SBA 504 loans.
Enchantment Land
Certified Development Company
505-843-9232 | www.ELCDC.com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NMBA

ROB NICHOLS

PRESIDENT AND CEO
AMERICAN BANKERS ASSOCIATION

Ransomware represents a serious threat to all businesses. But the good news is that the financial sector is ahead of the game when it comes to cybersecurity, given the rigorous regulatory framework to which banks adhere.

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TO PAY OR NOT TO PAY:

RANSOMWARE ATTACKS OFFER AN UNSAVORY CHOICE

It's the message a CEO never wants to receive: "We've got your data and you need to pay up if you want it back."

Unfortunately, that message is landing in CEO inboxes increasingly often, as ransomware attacks ramp up in the U.S. In just the first six months of 2021, the Financial Crimes Enforcement Network identified $590 million in ransomware-related Suspicious Activity Reports — a 42% increase from the 2020 total of $416 million. And FinCEN reports that we could be on track to see a higher transaction value for ransomware-related SARs than we've seen in the past 10 years *combined*.

Ransomware attacks — which use malware to encrypt files on a computer or mobile device and render it unusable until a ransom is paid — present companies with an unsavory dilemma: pay a ransom to a criminal actor, or lose a potentially devastating amount of data, which could seriously compromise business operations.

These kinds of attacks are evolving quickly in sophistication and scope, and virtually any business could be targeted at any time. What's perhaps most concerning is that criminal actors are increasingly targeting critical infrastructure entities, as we saw in the Colonial Pipeline incident earlier this year that caused a shutdown of a major East Coast oil provider. They've also begun branching out into "extortion-ware," in which the hacker not only encrypts sensitive data but then goes the extra step and threatens publicly to release it unless the institution complies with their demands.

... the first time you think about ransomware attacks and how to handle them should not be after your bank has fallen victim to one.

Given the potential operational and reputational consequences of these types of cyberattacks, banks need to have a plan in advance for how they'll respond. There are a number of factors to consider.

First, while most companies choose to pay — cyber insurer Marsh McLennan reports that more than 60% of ransomware victims pay the requested ransom — it's not always guaranteed that the encrypted data will be fully restored. In fact, one survey of more than 5,000 I.T. decision-makers worldwide found that about half of those who did pay a ransom only recovered 65% of their compromised data. Twenty-nine percent said they only recouped about 50%.

And even if a company's ransom hacker unlocks all the encrypted data after the ransom is paid, the company will still need to take steps to clean that data and ensure it can't be easily re-encrypted.

On the other hand, there are also several good reasons not to pay a ransom. There are the societal costs to consider — paying the ransom could perpetrate attacks on other institutions or entice the hacker to hit you again for more money. Paying a ransom could also erode trust from customers and business partners, as payment could signal a lack of continuity planning and preparation.

Either way, the first time you think about ransomware attacks and how to handle them should not be after your bank has fallen victim to one. To that end, ABA in October released a new Ransomware Toolkit, which provides helpful guides for protecting your bank against ransomware attacks, responding in the event of an attack, and determining whether to pay a ransom. The toolkit can be downloaded at aba.com/ransomware.

Ransomware represents a serious threat to all businesses. But the good news is that the financial sector is ahead of the game when it comes to cybersecurity, given the rigorous regulatory framework to which banks adhere. After all, as we found in a recent ABA/Morning Consult poll, consumers overwhelmingly trust banks the most to keep their personal information safe and secure.

By addressing the problem of ransomware head-on and taking prudent steps to prepare, we can help our industry maintain its reputation as the "gold standard" for data protection. ■

Email Rob at nichols@aba.com.

THE REFORM AND MODERNIZATION OF BSA/AML

By Julia Gutierrez, Director of Education, Compliance Alliance

With technology changing and growing at what seems like the speed of light, banking laws and regulations can struggle to keep up. All too often, we skim across various regulations that revolve around paper transactions or technology that barely exists. One area of banking that can be especially impacted by the inability to keep up with the ever-changing world of technology or modernization is the Bank Secrecy Act (BSA). The BSA has been around since 1970 when Congress passed it as the first set of laws to combat money laundering in the United States. Except for the amendment to incorporate the provisions of the USA PATRIOT Act, there haven't been many significant changes to the BSA until recent years. The BSA must be revised and revamped to meet the challenges and technological advances of the times to fulfill its purpose of fighting money laundering and financial crimes as effectively today as it did 50 years ago.

Background

Over the past several years, the Financial Crimes Enforcement Network (FinCEN) has placed a great deal of focus on reforming and modernizing the BSA. The objective began years earlier in 2010 when the Bank Secrecy Act Information Technology (IT) Modernization Program was developed to provide a modernized IT foundation to collect, store, safeguard, analyze and share data collected pursuant to the expectation of the BSA. Modernization remains a critical component of government efforts to ensure transparency among U.S. financial systems to detect and deter crime, strengthen national security, and achieve economic stability and growth. More recently, the call for modernization returns to the forefront as FinCEN sets out to "reexamine the BSA regulatory framework and the broader [Anti-Money Laundering] regime."

In 2019, the House Financial Services Committee issued proposed bills related to the Bank Secrecy Act and Anti-Money Laundering and Combating the Financing of Terrorism (CFT) laws. One of the proposed bills was set to reform the BSA/AML in an effort to strengthen and modernize the program by focusing on information sharing, resource sharing and technological innovation. Congress has also considered various proposals which could restructure and modernize the BSA/AML. The U.S. Department of Treasury issued its 2020 National Strategy for Combating Terrorist and Other Illicit Financing, which called for AML modernization by leveraging new technologies coupled with innovative compliance approaches.

In 2019, the House Financial Services Committee issued proposed bills related to the Bank Secrecy Act and Anti-Money Laundering and Combating the Financing of Terrorism (CFT) laws. One of the proposed bills was set to reform the BSA/AML in an effort to strengthen and modernize the program by focusing on information sharing, resource sharing and technological innovation.

Modernizing the BSA

Modernization seems to be the frequent theme of the Bank Secrecy Act. Much of this theme can be credited to the former director of FinCEN, Kenneth Blanco, and his focus on the reform and modernization of the BSA/AML. The reform and modernization of the BSA revolve around a collection of Advanced Notice of Proposed Rulemaking (ANPR), Final Rules and new or amended laws. As part of the reform efforts, FinCEN issued a Final Rule on Sept. 14, 2020, which extended BSA/AML requirements to financial institutions lacking a federal functional regulator. The Final Rule required these institutions to develop and implement an Anti-Money Laundering program, establish a written Customer Identification Program, and verify the identity of beneficial owners. The Final Rule closed a regulatory gap between financial institutions, brought about consistent reporting requirements and decreased exploitation vulnerability.

Just a couple of days later, on Sept. 16, 2020, FinCEN issued an Advanced Notice of Proposed Rulemaking (ANPR), one of the first major efforts in broadening and modernizing the regulatory framework of the BSA and the broader national AML regime. The intent is to provide greater flexibility in allocating resources and a greater alignment of priorities across the financial industry and government to enhance the effectiveness and efficiency of anti-money launder (AML) programs.

It would require financial institutions to have an AML compliance program, including a risk assessment as part of their program. In addition, the ANPR clearly outlines the expectations that financial institutions must meet when developing an "effective and reasonably designed" program. Such programs should: (1) assess and manage risk as informed by a financial institution's own risk assessment process, including consideration of AML priorities to be issued by FinCEN consistent with the proposed amendments; (2) provide for compliance with BSA requirements; and (3) provide for the reporting of information with a high degree of usefulness to government authorities. The overall goal of the 2020 Final Rule is to enhance the effectiveness of anti-money laundering programs as it seeks to modernize the current BSA/AML. As most financial institutions already have risk assessments as part of their BSA/AML program, the ANPR may not necessarily add any new expectations but rather make an industry best practice into a regulatory requirement.

BSA/AML Reform continued Jan. 1, 2021, when the Senate voted to override President Trump's veto of the National Defense Authorization Act (NDAA), which the House had previously overridden Dec. 28, 2020. The NDAA may provide the most significant and comprehensive set of reforms to the BSA/AML since the USA PATRIOT Act of 2001. Some of the most significant reforms include expanding the ability to share Suspicious Activity Report (SAR), streamlining SAR and Currency Transaction Report (CTR) and modifying the BSA/AML program. It also reincorporates an emphasis on risk-based approaches to AML program requirements.

The Anti-Money Laundering Act of 2020, part of the NDAA 2021, included the Corporate Transparency Act (CTA) and was effective as law with Congress' override of President Trump's veto of the NDAA Jan. 1, 2021. The CTA has been many years in the making and is intended to be fully implemented by 2023, including creating a database of beneficial ownership information with FinCEN. The CTA establishes a new framework for reporting and disclosing beneficial ownership information and shifts information collection from financial institutions to reporting companies, modernizing and streamlining much of the BSA/AML expectations.

The focus on reform and modernization seems to be everywhere we turn as it becomes intertwined in new laws. The efforts and purpose of the Bank Secrecy Act and Anti-Money Laundering remain unchanged. The world and technology around us are changing, demanding modernization and reform become priorities. Financial institutions must remain knowledgeable of the regulatory and legal changes and embrace the modernization and reform which impacts their programs. ■

THE ROOTS OF INFLATION AND HOW INFORMATION IS REPORTED

By Mark Anderson, NMBA Legal and Legislative Assistant

If you pay attention to economic news in the United States with any regularity, you will notice a pattern emerge rapidly. Anytime a source of economic consternation (inflation, unemployment, supply chain issues) arises, there is a seemingly deliberate attempt to mystify the problem, to make it even more complex than it already is. For a variety of factors, it is remarkably difficult for our mainstream press to present any kind of coherent explanation to the general population about many of society's most urgent problems. As a result, you have an American public with many confused, contradictory beliefs and is willing to blame sources that have very little actual power. One of the biggest reasons for this confusion is our media's unwillingness to state how much corporate gains lead to myriad externalities. As a result, you have pundits who attempt to muddy the entire process and, in some cases, shower praise onto the individuals most responsible for causing the problem.

Let's examine the last two to three months of economic news, where inflation has been a recurring topic of conversation. Inflation is a complicated concept on its own, but it is made vastly more complex by how it is reported. Factors like increased labor costs, supply chain bottlenecks, and increased consumer demand are all speculated as factors, but perhaps the most important factor, corporate consolidation, is rarely mentioned. Massive multinational corporations have all the power to shape the market, yet the media often treats them like innocent actors abiding by honest business practices. Instead, you will hear speculation that low-wage workers — the people with the least amount of power in our economy — are causing colossal economic disruption because they're making slightly more. On the flip side, politicians and corporate executives — people with all the power — are almost always treated as if they're acting in good faith, as if their actions do not directly affect the economy. It's the financial journalism equivalent of reporting on a crime while trying to blame everything except the actual perpetrator.

According to a recent report from Bloomberg, "Faced with rising prices for everything from lumber to oil to labor and computer chips, chief executive officers have cut costs and boosted prices for their products. The strategy appears to be working, with first quarter income from S&P 500 companies jumping five times as fast as sales, data compiled by Bloomberg Intelligence show. As a result, their net margin — which measures how much profit companies are squeezing from their revenue — has risen to a record high, according to Bank of America Corp." According to Nicholas Colas, co-founder of DataTrek Research, "To a fundamental analyst, inflation is called 'pricing power.' And it is very good for incremental corporate earnings." Colas also mentions, "Corporations are not being forced to raise prices to stay afloat. They are choosing to raise prices to maintain large profit margins because they have enough market power to do so without losing customers."

A perfect example of how this process unfolds is with consumer product giant Procter and Gamble (P&G). In April 2021, P&G announced that it "will start charging more for household staples from diapers to toilet paper, the latest and biggest consumer-products company to announce price hikes." To justify the increases, P&G cited "rising costs for raw materials, such as resin and pulp, and higher expenses to transport goods." The price increases, P&G said, will "be in the mid-to high-single-digit percentage points." In the fiscal quarter ending March 31, 2021, P&G reported an operating income, or profit, of $3.785 billion. That represented a 20.9% profit margin compared to total sales. In the fiscal quarter ending Sept. 30, 2021, after some of P&G's price increases went into effect, the company reported a profit of $5.06 billion. That represented a profit margin of 24.7%. The company then spent $3 billion in the quarter buying its own stock. The price of Pampers or Tide cannot be explained by "rising costs for raw materials" or transportation alone. Rather, the price increases were necessary to maintain — and even increase — large profit margins.

There have been articles here and there detailing how much corporate consolidation and lack of market competition are contributing to inflation, but it certainly isn't the mainstream narrative. Instead, there is an attempt to muddy the water, to mystify the cause.

For example, Procter & Gamble can get away with selling diapers at a considerable margin because there is almost zero competition in the diaper market. Economic data shows that corporations raising prices are also amassing huge profits and spending billions on stock buybacks. While various factors are at play, insufficiently competitive industries have stripped consumers of bargaining power. This extends to other sectors, like the food and beverage industry. Both PepsiCo and Coca-Cola, both dominant market forces, decided to raise prices by up to 5%, which increased the profit margins for both companies massively.

Another example is Whirlpool, which raised its prices between 5% and 12% in 2021, said the increase was to "compensate for increased raw material costs, including for steel and plastics." However, in the third quarter, Whirlpool announced profits of $608 million and revised its profit margins moving forward from 10% to 12%. So, while the initial excuse for the price increases was to offset the raw material cost, they significantly increased profit margins.

There have been articles here and there detailing how much corporate consolidation and lack of market competition are contributing to inflation, but it certainly isn't the mainstream narrative. Instead, there is an attempt to muddy the water, to mystify the cause. It's striking how much the early consensus around inflation immediately blamed the stimulus checks sent to Americans during the pandemic. That is the media's default position in this country; find people without any actual power, make them the scapegoat, and absolve people with enormous amounts of power of any responsibility. The further you dig into the causes of inflation, it becomes apparent that supply-chain issues and corporate consolidation are far more at their roots than stimulus money or increased wages. However, it is incredibly beneficial to those in power to scapegoat stimulus checks or increased wages as the cause to depress the expectations of the American public in the future. As a result, we have a climate in this country where the media is constantly gaslighting people or telling outright lies, blaming economic travails on sources with no actual power, such as low-wage workers making slightly more and completely ignoring or whitewashing the actual sources of our problems. As a result, you have a population that often seems remarkably confused, reactionary, and angry. Who can blame people when it's so difficult to determine the truth?

Another example of willful misinformation around an issue, in the same vein as inflation, revolves around the mutations of COVID-19 that are currently emerging long after vaccine availability. These mutations are emerging in developing countries that have largely been denied vaccine access. The biggest reason for the lack of vaccine access in these countries is that the pharmaceutical companies with the patents for creating the vaccine (Pfizer, Moderna, Johnson & Johnson) refuse to waive the patents, thus prolonging the pandemic and leading to further mutations. There is a direct correlation between corporate profiteering and failing public health. Outside the board rooms of those pharmaceutical companies, there shouldn't be a single American siding with this outrageously shortsighted decision making. Yet there is a complete unwillingness in our most prominent media outlets to call out the corporate greed, to really emphasize how little chance we have of solving any of our major problems in this current environment.

If you examine most issues currently plaguing this country, corporate consolidation almost always plays a major role. Our current supply-chain issues, for example, have been revealed to be the result of the same type of factors. According to a recent Wall Street Journal article, a hedge-fund-backed consolidated ship container supply, along with freight rail cost-cutting, has been the main culprit for the supply-chain snarl. In every step of the way, in every sector of our economy, there is profiteering going on to different degrees. As a result, it's difficult to solve any actual problems if the most pressing matter is how you will make a certain amount of money tomorrow or next quarter. It produces a short-term, volatile mindset. It would be tremendously beneficial if more Americans understood who has all the power, who really controls the economy, instead of constantly shifting the blame. As it currently stands, we can usually identify our problems but rarely come up with coherent solutions. ■

MEET CAPITAL CDCS NEW MEXICO BUSINESS DEVELOPMENT OFFICER

By Maxine Montoya, Capital CDC

For 23 years, I worked for a large national bank and had no plan to leave. I had a wonderful career, worked for the best leader, and had an overall happy work-life balance. When the pandemic hit, I was like the rest of the country — navigating working from home — and could not predict that my life was about — to take a new turn.

In January 2021, I found myself beginning a new journey at Capital CDC in the world of SBA 504 lending. Previously, Lorena Chavez was my SBA contact at Capital CDC for over 20 years. And now, with her approaching retirement, I was jumping in to take on that role. Who could predict that this change for me also came in a year that was unprecedented in SBA lending? What timing!

For those of you unfamiliar with Capital CDC, we are a nonprofit provider of small business financing and have been in business since 1993. We partner with banks, credit unions, and non-bank lenders to provide SBA 504 financing. Capital CDC operates statewide in New Mexico, Texas, and Arkansas and has an effective team to assist small-business owners in financing owner-occupied real estate and heavy machinery/equipment purchases.

As a banker, I was taught that "the SBA 504 makes a good deal a great deal" because of the low rates and long amortization. While working at the large bank, I must confess that I had a phenomenal SBA expert just an elevator ride away. Once I handed off my prospective client to this in-house expert, my SBA 504 touch was complete.

It wasn't until I started working at Capital CDC that I began to learn and understand the ins and outs of the program. Before entering retirement, Lorena Chavez and I spent a couple of weeks together training and going on calls to soak up as much knowledge from her as I could. Eleven months down the road, I can say that I have learned so much. This learning has come from the National Association of Development Companies (NADCO) training, my Capital CDC team members, and some good old-fashioned mistakes. Many of my lessons have also come from lenders throughout the state of New Mexico, and for that, I am grateful.

For those of you unfamiliar with Capital CDC, we are a nonprofit provider of small business financing and have been in business since 1993. We partner with banks, credit unions, and non-bank lenders to provide SBA 504 financing.

Not only have I learned about the programs we offer, but I've also learned more about Capital CDC's role in contributing to local economic development. One of the most important aspects that attracted me to Capital CDC is its focus on our community. Capital CDC contributes to nonprofits in the state such as WESST, The Hispano Chamber of Commerce, Albuquerque Economic and Development, and the Sandoval Economic Association, to name a few.

As a New Mexico native whose family has gone back over 10 generations, it is important for me to work for a company that supports my passion for our state. I know and understand the beauty and uniqueness of our state. I also know that we are naturally exceedingly kind, open folks, and the kindness I have experienced this year from all of you has been a highlight of my working life.

I look forward to partnering with you in FY-2022. ■

For more information, please visit us online at www.capitalcdc.com.

Capital CDC had an exceptional year in New Mexico in FY-2021 (Oct. 1, 2020, to Sept. 30, 2021) with 30 SBA 504 Loans Approved for $10.7 million in SBA dollars approved. We partnered with 13 lending institutions, ranked #1 in our Five-State Region as the Top 504 Volume Lender, and ranked #13 out of 199 CDCs nationwide for SBA 504 Loan Approval Volume.

NEW MEXICO BANKS CAN HELP LOCAL COMPANIES GROW WITH SMALL BUSINESS BOOST

By Staff of Federal Home Loan Bank of Dallas

The Small Business Boost (SBB) program from the Federal Home Loan Bank of Dallas (FHLB Dallas) offers member banks a lending tool to assist small businesses.

The low-cost, recoverable assistance program has no repayments due in the first year, helping to improve initial cash flow for the business. Funds can be used in several ways to start or expand a small business, including building purchases, land acquisitions, construction, equipment, working capital, and other related uses.

The program — offered through member financial institutions of FHLB Dallas — has assisted pharmacists, dentists, restaurants, gyms, automotive repair, and many other small businesses to form or help existing businesses retain or create jobs in their respective communities.

FHLB Dallas began offering SBB to its members in 2019 to provide a secondary, unsecured loan that fills a financial gap for a small business when there is a lack of equity or shortfall, making small business deals bankable.

As of Dec. 7, 2021, a total of 128 businesses have received $8,935,000 from the SBB lending program to support the creation or retention of 973 jobs. Funds for 2021 have been fully allocated.

A new round of $1.5 million in funding will be released in early January. Any funding left over from that round will be added to another $1.5 million in funds released in July. The exact dates for the funding release will be available soon at fhlb.com. ■

LEARN MORE ABOUT SMALL BUSINESS BOOST

Examples of how funds can be used:

- Permanent working capital
- Facility expansion
- Leasehold improvements
- Building purchase
- Land acquisition and construction
- Machinery and equipment purchase
- Closing costs

Steps:

1. Enroll in the program
2. Register a business for funding
3. Follow guidelines for approval:

- The borrower must be qualified as a small business based on Small Business Administration standards.
- The member must provide at least 40% of total financing to the small business. Extending or modifying existing member debt may be used to meet this requirement. The member is not required to advance additional loan funds to the small business.
- The maximum SBB loan amount is $100,000 or 50% of the member loan to the small business.
- At least one job must be created or retained for every $50,000 in SBB funding.
- Member must demonstrate loan does not meet their underwriting criteria without the SBB funds.
- Businesses may obtain only one SBB loan.
- If the deal involves real estate, at least 51% of the real estate must be occupied by the small business.

Questions about the SBB? Contact the Community Investment Department at FHLB Dallas at 800.362.2944 or email ahp@fhlb.com.

SYNDICATED LOAN MARKET OFFERS LENDING POSSIBILITIES FOR COMMUNITY BANKERS

By Jay Kenney, PCBB

With few other places to invest their cash, FIs are buying U.S. government bonds at record levels. According to JPMorgan Chase, banks purchased a record of about $150 billion in Treasury bonds in Q2 of this year. That has helped put downward pressure on bond yields.

Many bankers are looking for ways to put their liquidity to good use. Buoyed by government relief, deposits surged at many financial institutions (FIs) at the start of the pandemic. Despite predictions that liquidity would tighten in pace with an economic recovery, FIs still have more cash than opportunities to profitably deploy it.

Net interest margins reached record lows in Q1 2021, according to S&P Global Market Intelligence, and dipped even lower in Q2. For the banking industry as a whole, aggregate taxable-equivalent net interest margin dropped 2.47% in Q2, or 6bp less than Q1 and 27bp less than Q2 2029.

With few other places to invest their cash, FIs are buying U.S. government bonds at record levels. According to JPMorgan Chase, banks purchased a record of about $150 billion in Treasury bonds in Q2 of this year. That has helped put downward pressure on bond yields.

However, given a choice, community banks would much rather write quality loans. So, the syndicated loan market for commercial and industrial (C&I) loans may offer a place to do just that and provide an attractive option for all that liquidity.

What are syndicated C&I loans?

The $1.5 trillion syndicated loan market for secured commercial and industrial loans typically involves sizeable loans and large borrowers financing substantial transactions, such as mergers and acquisitions.

- **Strong cash flows.** Because borrowers are usually national or large regional enterprises, they have some income diversity, translating to strong cash flows.
- **Who is included?** Big banks typically originate the loans and set their terms, then pull together other lenders that complete the deal as a group.
- **Floating rates.** Rates usually float at points over an index; that used to be LIBOR, though the index choice is gradually becoming more diverse.
- **Short terms.** Loan terms are five to seven years, and the debt amortizes wholly or partially.
- **High liquidity.** Lenders typically have a first lien on assets — an important detail, especially considering that borrowers are often heavily leveraged. Running the gamut from low-to high-risk and corresponding returns, all these loans trade in a secondary market, making them liquid.

How community banks can benefit

Through years of experience in this market, PCBB has found the following advantages with syndicated C&I loans:

Flexibility. The liquidity is one potential benefit to owning a piece of one of these loans. An FI that buys a loan from another FI in most other situations might exit the position, but only by selling the loan back to the originator. If the first institution doesn't want to repurchase the loan, the second one is stuck. These C&I loans offer quicker liquidity and more flexibility.

Interest income and diversification. Syndicated C&I loans generally offer returns that, on a risk-adjusted basis, compare well with a C&I portfolio based in a small, local market. Returns are particularly good given the current low-rate environment. With a variety of borrowers in various industries, these loans allow you to use your liquidity and diversify your loan portfolio at the same time.

Moreover, this kind of lending offers small community banks an opportunity for loan growth that has been the domain of large banks in the past. Given the current challenges for many community banks to expand their lending, they may want to look into the syndicated C&I debt marketplace. ■

PCBB has a C&I program that can increase your loan portfolio. To learn more, contact Jay Kenney, SVP & Southwest Regional Manager, at pcbb.com or jkenney@pcbb.com.

BANK NEWS

In Memoriam: Claude Leyendecker

Former NMBA President Claude E. Leyendecker (1972-73) passed away Aug. 6, 2021. He was born Oct. 15, 1922, and grew up in Albuquerque, the son of railroad pioneers. He interrupted his college education for five years to volunteer for service in World War II, and then in 1949, he graduated from New Mexico State University with honors in agricultural education.

Claude's agricultural career included positions with New Mexico Farm & Livestock Bureau in Law Cruces. In 1958, he moved his family to Deming and managed Farmers, a large store owned by the Mimbres Valley Farmers Association. In 1964, while at Farmers, he was named to the board of Mimbres Valley Bank (now a Wells Fargo Bank). And in 1966, community leaders persuaded him to accept leadership of the bank.

Claude was part of almost every professional, civic, and charitable organization imaginable on the local, state, and national levels. This includes serving as a board member at the Dallas Federal Reserve, El Paso Branch; President, New Mexico Bankers' Association; National Executive Council of American Bankers Association; National Executive Council of Independent Bankers Association of America; and Distinguished Alumnus Award of New Mexico State University.

Those who predeceased him: his parents; his wife, Josephine Shubert; his son, Phillip; brother, Dr. Phillip Leyendecker; sister, Dona Grisinger; and many friends. Those left to mourn him: his daughter Claudia Jeffreys (Gary) of Deming; son Greg Leyendecker (Georgetta) of Albuquerque; and four grandsons.

The funeral mass was said by Father Prakasham Babu and Deacon Art Gutierrez Aug. 13, 2021, at Holy Family Catholic Church in Deming. Burial followed at Mountain View Cemetery.

NMBA President Lonnie Talbert Receives Distinguished Service Award

Albuquerque Economic Development, Inc. announced Lonnie Talbert — President and COO of Southwest Capital Bank — as the AED Chairman's Distinguished Service Award recipient for the third annual 505 Awards. The 505 Awards recognize organizations and individuals making exceptional contributions to economic growth and prosperity in the Albuquerque metro area, resulting in improvements to the region's overall economic strength. The AED Chairman's Distinguished Service Award recognizes individuals or organizations that have exemplified support for economic development efforts in alignment with AED's Strategic Plan in a wide variety of areas, truly settling the bar for the future of the region.

Among his significant contributions to the area's economic growth, Mr. Talbert has served as a Bernalillo County Commissioner (District 4) for eight years and served as Commission Chair in 2020, working well with Commissioners regardless of party affiliation. In his time on the Commission, Talbert brought in 67 projects valued at $1.3 billion that will generate more than 6,000 jobs in Bernalillo County. Additionally, he supported the gender-pay equity amendment in 2020 and approved additional grants for small businesses during the COVID-19 pandemic lockdown.

"We are incredibly grateful for the dedication and commitment Lonnie Talbert has shown to serving his community and to increasing economic opportunity for our area," said Danielle Casey, AED President and CEO. "His 30-year career in the banking industry, in combination with his eight-year tenure as a Bernalillo County Commissioner, contribute to his inherent understanding of what people need and want in terms of quality of life and what businesses must have to operate successfully and profitability. He's proven time and again that his driving goal is to make a positive difference in the lives of those in the Albuquerque area and beyond."

American Bankers Mutual Insurance, Ltd. Announces $3 Million Distributions to ABA Member Banks

The American Bankers Association recently announced that American Bankers Mutual Insurance, Ltd., the reinsurer for the ABA-endorsed insurance program, has declared a $3 million distribution. This money is to be shared by qualified ABA member banks insured through ABA Insurance Services, a member of Great American Insurance Group.

This is the 32nd consecutive year that the industry's leading professional liability and bond insurance provider has declared distributions to eligible ABA member banks, bringing the total to $94.3 million

BANK NEWS

since the program's inception. ABA member banks that purchase their directors and officers, bond, cyber and related insurance from this program are eligible to receive a distribution.

J.P. Morgan International Council Releases Latest Report

The J.P. Morgan International Council, which was founded in 1967 and whose members include CEOs and policy leaders from across the globe, released its latest report Safeguarding Business and National Infrastructure, which outlines how government and business can better work together to confront cybersecurity challenges. Key takeaways from the report include:

- Strengthening cybersecurity is an increasingly urgent challenge for business and political leaders alike, one that requires fresh thinking and sustained attention from all levels of government and society.
- Council members recognized the enormous amount of work underway in both the U.S. Congress and the Biden Administration to tackle this massive challenge.
- The Council also saw opportunities to amplify these efforts while pointing to new areas for public policy action:
  1. Strengthening collaboration between the public and private sectors by:
     - Boosting the capacity of government and business
     - Sharing timely information
     - Promoting accountability
  2. Turning policy into law by:
     - Passing legislation to codify key provisions of E.O.s enacted under current and prior administrations
  3. Elevating international cyber diplomacy by:
     - Intensifying diplomatic efforts among like-minded countries to enhance intelligence sharing
     - Encouraging public-private collaboration at the international level
     - Defining and enforcing norms of cyber behavior

BANKERS ON THE MOVE

Century Bank Has Named Max Myers New President and CEO

Century Bank has recently named Max Myers as its new President and CEO. Max was born and raised in Santa Fe and began his career in banking as a bank examiner. With more than 42 years in banking, his previous employment has included Sunwest Bank and New Mexico Bank and Trust. He graduated from the University of New Mexico, Anderson School of Business with an MBA and a BBA in finance from New Mexico State University.

Actively involved in community support, Max shares his time with many nonprofit organizations, including the Board of Advisors at NMSU Hospitality Restaurant and Tourism Management, serving as vice president of the New Mexico Amigos and as a Board Member of the Life Center and El Rancho de las Golondrinas. He previously served as chairman of the board of St. Michael's High School.

Former MFA Staff Member Erin Quinn Joins Wells Fargo

New Mexico native Erin Quinn has joined Wells Fargo's Government Relations and Public Policy Department as a member of the Public Policy Engagement Team. Erin serves as a Senior Consultant, focusing on public policy issues in Home Lending. She is based in the Wells Fargo Washington, D.C. office.

Erin is an experienced public policy professional with regulatory and advocacy expertise and an in-depth understanding of complex housing policy and capital markets issues. Most recently, Erin was at Freddie Mac, where she spent six years as the Director of Affordable Lending. From 2012 to 2015, Erin worked at the Department of the Treasury as the Program Director of the Hardest Hit Fund (HHF) in the Office of Financial Stability & Homeownership Preservation. In this role, she directed the administration of the HHF, coordinating among Treasury teams and providing guidance to housing finance agencies. She regularly represented Treasury and the HHF at interagency policy meetings, before representatives of the White House, and before Congressional oversight bodies.

Before her work at Treasury, Erin served as a Senior Policy and Program Advisor at the New Mexico Mortgage Finance Authority (MFA). In this role, she developed and implemented advocacy and education strategies, served as a staff liaison for MFA's Legislative Oversight Committee, and authored proposed state housing policies and programs. She also advised MFA's Board of Directors and Executive Team. She holds a Bachelor's Degree in Economics and Government/International studies from the University of Notre Dame and an MBA from the University of New Mexico. ■

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