NEW MEXICO

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BANKERS DIGEST

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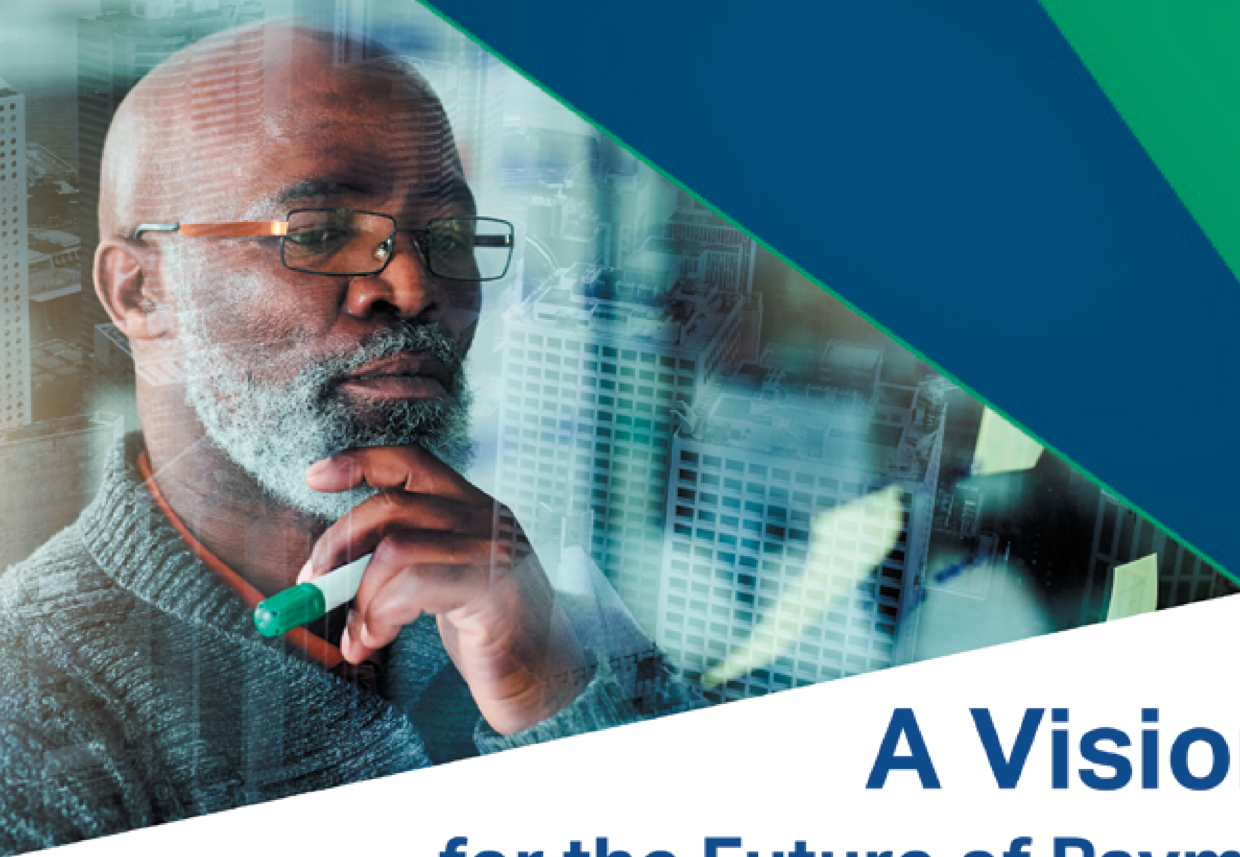

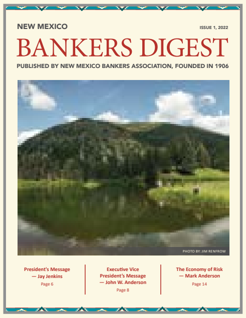

Our Mission

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

JAY JENKINS

PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

We can't have too many friends in and out of our state and industry, including those on both sides of the political aisle. It is important to remember that politicians and industry leaders of all political leanings shape and influence our state and industry.

VISIT OUR WEBSITE AT:

NMBANKERS.COM

It is always a pleasure to correspond with my colleagues in the NMBA; however, I wish circumstances were different. I know we will all miss Lonnie Talbert, our previous NMBA President, who recently relocated to the beautiful state of Florida. He is a personal friend, and I am looking forward to our continued engagement across the country through the American Bankers Association, where we serve on a committee together. As a previous NMBA President and current board member, it was a no-brainer to help fill in for the open timeframe and interim to assist our banking organization. Our NMBA leadership and members are stronger than ever, and I will go into these next few months building on Lonnie's platform with all of your guidance. We have a tremendous ability to affect positive change, and promote and protect our great industry!

As we move through COVID, it appears it will be with us in some form no matter where we go and touch all of us in some way, but hopefully, the worst is behind us. While there are many negative and devastating aspects of COVID, there have also been some positives. We have all been forced to think outside the box. The way we conduct business with meetings, travel, time in and out of the office, defining a new office space, and enhanced technology are just some of the elements of daily life that have and will continue to change. While I am always an advocate of in-person meetings, time and cost can be managed more efficiently with virtual meetings, all with new technology.

On the banking front today, there are so many critical issues at hand. A few about which we need to contact our congressional delegation are:

First, close to home, there is the issue of cannabis banking. Agree or disagree, it is legal, both medically and recreationally, in New Mexico, and we must clear a way to take the cash off the streets legally. We must get the SAFE Banking Act passed through both houses of Congress. The House has passed the bill three times, but the Senate has yet to take a vote.

Second, there is a big push to eliminate overdraft charges. According to an ABA poll, 89% of Americans find their bank's overdraft protection valuable. It is easy to legislate from

Washington D.C. until you get on the front lines in grassroots America. Folks can opt-in or opt-out of overdrafts as it is, and I think the majority of New Mexicans find it a net value to have their overdrawn checks paid.

Third, there is the seemingly never-ending issue of credit unions not paying taxes while providing the exact same service as banks. It is imperative to continue to push for them to be taxed. Then, there is Section 1071 of the small business data collection. Under Section 1071, we will have to collect and report small business data, in which we are supervised, versus non-banks collecting data with no federal supervision.

Last, there is the ECORA farm bill. It's not a bank bill explicitly, but a measure to lower the cost of financing farm and ranch real estate for the folks feeding our country. This is important, not only to help banks compete with Farm Credit Unions, but to allow loans to be completed and relationships maintained in rural America where they originate.

If you know me, then you know I am passionate about the viability of New Mexico, my home state, as well as my community and the banking industry. We can't have too many friends in and out of our state and industry, including those on both sides of the political aisle. It is important to remember that politicians and industry leaders of all political leanings shape and influence our state and industry. I encourage all of you to support NMBA Bank Pac now more than ever. The resources we raise help our industry promote and protect the important business we do in helping our customers and state move forward. Also, I urge you to stay involved locally, statewide and nationally, as there is always a place for bankers to make a difference. We help people, and we help businesses, and, in turn, we make a positive difference!

I will close on a political subject about which we are connected directly and indirectly throughout our great state: New Mexico's booming oil and gas industry. A few facts: we are the #2 largest producer of oil in the entire country. Also, the oil and gas industry supply over 30% of our state's annual budget and hundreds of millions of dollars more in capital outlay for every community in the state. And the production and development of oil and gas in New Mexico are cleaner than in any other developing area in the world. There is room for alternative energy, and we should promote solar, wind and others, but not at the expense of the greatest asset we have in oil and gas. We can promote increased tax incentives for solar and wind and grow alternative energy sources while working hand in hand with oil and gas versus penalizing the industry, which makes a positive difference in every New Mexican's life.

Stay safe, and I look forward to working with each one of you in protecting and promoting our financial industry and banking in New Mexico. It's an important role we play. ■

EXECUTIVE VICE PRESIDENT'S MESSAGE

JOHN W. ANDERSON

EXECUTIVE VICE PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

> The budget bill raises compensation for all state employees, including teachers. The bill also increases the hourly minimum wage for state employees to $15 per hour. The state surplus account is at a meteoric high.

2022 Legislature Concludes: Money Cures All Ills

I am sad to report that NMBA President Lonnie Talbert has resigned his position, relocated to Jacksonville, Florida, and joined First Federal Bank as its Division President – Specialty Banking. The NMBA will miss Lonnie tremendously. Most recently, Lonnie received the Albuquerque Development, Inc. Chairman's Distinguished Service Award. This award recognizes individuals making exceptional contributions to economic growth and prosperity in the Albuquerque metro area, and improving the region's overall economic strength.

As noted in the AED presentation acknowledging Lonnie, "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 profitably. 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."

Needless to say, the NMBA will miss Lonnie's leadership, energy and commitment.

2022 Legislative Session Update

The 2022 thirty-day legislature adjourned on February 17 with some final-day fireworks. The Senate was subjected to a two-hour filibuster, resulting in the death of voting rights legislation. On that same day, in a total surprise to most, House Speaker Brian Egolf announced that he would not seek re-election, and Governor Grisham lifted the state's mask mandate effective immediately.

As anticipated, the Governor signed the General Appropriations Act (HB 2). The legislature approved an $8.5 billion budget for fiscal year 2023 (beginning July 1, 2022), which represents a 14% increase over the current year's budget. The budget bill raises compensation for all state employees, including teachers. The bill also increases the hourly minimum wage for state employees to $15 per hour. The state surplus account is at a meteoric high.

However, in a totally unanticipated move, the Governor vetoed a supplemental appropriation bill (SB 48) in its entirety. The bill called for a 33% increase in compensation for judges and authorized $50 million for projects and programs selected by individual legislators. For SB 48, house members were allocated $360,000, and senators were given $600,000. Most legislators were incensed by the veto and called for legislative leadership to convene an extraordinary session to override the governor's veto. Ultimately, Governor Grisham called the legislature into special session on April 5, and the majority of the supplemental appropriations previously vetoed were enacted in a revised bill and approved.

A number of prominent bills that passed the 2022 Legislature and were signed by the governor were bills that had been considered, unsuccessfully, for several years. These included capping interest on small loans from 175% to 36%, a package of tax revision bills that include a one-time tax rebate, refundable child income tax credits, a small reduction in the state's gross receipts tax, exemption of Social Security income from state income tax for all but the highest-income New Mexicans, and five-year income tax relief for military pensioners.

Bills Signed Into Law

- **Capital Outlay Projects (SB 212):** The Legislature approved $828 million for capital projects around the state.

- **General Obligation Bonds (HB 153):** The Legislature approved $258 million for projects for New Mexico higher education institutions, senior centers, and libraries. Unlike the capital outlay bill, these projects will be funded by general obligation bonds backed by property taxes and would require statewide voter approval in the November general election.

- **Interest Rate Cap on Small Loans (HB 152):** The new law caps the annual interest rates of small loans at 36%, down from 175%. The bill allows an additional 5% origination fee for loans of less than $500. Banks are exempt from the provisions of the bill.

The Legislature approved $258 million for projects for New Mexico higher education institutions, senior centers, and libraries.

- **Affordable Housing (SB 134):** The bill annually allocates 2.5% of severance tax bond capacity for the New Mexico Housing Trust Fund, administered by the NM Mortgage Finance Authority, to build, rehabilitate, and/or weatherize homes for low-income New Mexicans. It is estimated that $27 million will be available for the Housing Trust Fund in 2024.

- **Tax Package (HB 163):** This very important bill provides:
  - A refundable child tax credit of up to $175 per child for tax years 2023 through 2027
  - A one-time, refundable income tax rebate of $500 for married couples filing joint returns with incomes under $150,000 and $250 for single filers with incomes under $75,000
  - A five-year income tax exemption for armed forces retirees, starting at $10,000 of military retirement income in 2022 and rising to $30,000 of retirement income in the tax year 2026
  - A one-time $1,000 refundable income tax credit for the tax year 2022 for full-time hospital nurses
  - An extension of the solar market tax credit, worth 10% of the purchase and installation cost of a solar power system
  - A new gross receipts tax deduction for certain professional services, including legal and accounting, sold to manufacturers; this will help reduce tax "pyramiding" by about $5 million per year and make New Mexico businesses more competitive
  - Eliminates taxation on social security, saving New Mexico seniors over $84 million next year; the bill includes a cap for exemption eligibility of $100,000 for single filers and $150,000 for married couples filing jointly
  - Cuts the state's gross receipts tax rate by an eighth of a percent starting July 1, 2022, and ramps up to a quarter-percent reduction on July 1, 2023, saving New Mexico businesses and consumers $200 million when fully implemented

In all, HB 163 is expected to provide about $400 million of recurring tax relief, benefitting all New Mexicans.

- **Taxation Pass-Through Entities (HB 102):** A major component of the federal 2017 Tax Cuts and Jobs Act was the $10,000 limit on the amount of state and local taxes an individual may deduct for regular federal income tax

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

purposes. Currently, individual owners of pass-through entities report their proportionate share of business income on their individual income tax returns, and are subject to the $10,000 annual limit for state and local income taxes paid. These entities include S-corporations, partnerships, limited partnerships, limited liability partnerships, and limited liability companies. The bill provides a way for pass-through entities to avoid the effect of the state and local cap by allowing direct taxation at the entity level under the proposed entity-level tax instead of taxing the individual to whom the income is otherwise passed through under the State Income Tax Act or the Corporate Income Tax Act.

Legislation Not Approved

State Bank (HB 75): The defeat of the creation of a state bank was the number one priority of the NMBA this session. Fortunately, the bill was defeated in the first assigned committee. HB 75 would have created a tax-exempt public bank that would have had the authority to replicate the offering of bank services and products and potentially act as the state's fiscal agent. We expect a similar bill will be introduced in 2023.

Fall Election

Senators do not come up for election until 2024. However, all house seats – as well as the governor and other statewide offices – will be on the ballot this year. Twelve house members, including Speaker of the House Brian Egolf, are not seeking re-election. Thirteen of the current Democratic House members and 10 Republican representatives have no opposition in the 2022 election cycle, nor do three candidates who have filed to replace retiring members. Thus, for 26 of the 70 House seats, incumbents/candidates will get a free, uncontested ride.

Legislators not seeking re-election include:

- Speaker Brian Egolf (D-Santa Fe)
- Rep. Zach Cook (R-Ruidoso)
- Rep. Jim Strickler (R-Farmington)
- Rep. Kelly Fajardo (D-Belen/Los Lunas)
- Rep. Debbie Armstrong (D-Albuquerque)
- Rep. Kay Buonkeva (D-Albuquerque)
- Rep. Daymon Ely (D-Corrales)
- Rep. Rebecca Dow (R-Truth or Consequences)
- Rep. Randy Crowder (R-Clovis)
- Rep. Phelps Anderson (R-Roswell)
- Rep. Karen Bash (D-Albuquerque)
- Rep. Georgene Louis (D-Albuquerque)

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EQUAL HOUSING OPPORTUNITY

WASHINGTON UPDATE

ROB NICHOLS

PRESIDENT AND CEO
AMERICAN BANKERS ASSOCIATION

LEADERS IN FINANCIAL LITERACY:

BANKERS CELEBRATE 25 YEARS OF TEACHING CHILDREN TO SAVE

As we work toward the collective goal of increasing financial health in the U.S., reaching out to young people is a great step bankers can take.

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Providing children with a strong base of financial knowledge is critical to helping them unlock their financial future and prosper as adults – and bankers are uniquely positioned to play a role in that process.

This year, the ABA Foundation celebrates a major milestone as we commemorate the 25th anniversary of the Teach Children to Save financial literacy initiative. Since 1997, Teach Children to Save has brought students in grades K-8 important lessons about money and real-world financial concepts – from saving and spending to budgeting and keeping their money safe.

With the help of bankers nationwide, Teach Children to Save has reached a total of 9.5 million students to date. (If you're looking for something to compare that to, it's roughly the number of people who live in the state of New Jersey.) Add in the ABA Foundation's other financial education program for teens and college-age students, Get Smart About Credit, and that number grows to almost 11.8 million children and young adults who have benefitted from the foundation's financial education curriculum (that's a population roughly equivalent to the population of Ohio).

Teach Children to Save began by providing bankers with tools and resources to enable them to take lessons on financial literacy topics into classrooms in their communities. Over

With the help of bankers nationwide, Teach Children to Save has reached a total of 9.5 million students to date.

the years, it has evolved and adapted to changing needs and preferences of younger generations – including pivoting to be heavily focused on virtual learning during the COVID-19 pandemic.

This year, as the program celebrates its "silver jubilee," the foundation is placing a particular emphasis on bringing financial education to students through video and will be rolling out three short videos this spring designed to deliver engaging, age-appropriate lessons by grade level. (And speaking of video, students also have the opportunity to participate in the foundation's Lights, Camera, Save! program, through which they channel their creativity and produce their own video showcasing their financial knowledge. Learn how your bank can get involved at no cost by visiting aba.com/LightsCameraSave.)

In honor of Financial Literacy Month, the foundation observes Teach Children to Save Day in April, but bankers' efforts to raise awareness about financial education are by no means confined to one day. In fact, Teach Children to Save encourages bankers to advance financial literacy throughout the year in whatever way they choose. To help banks engage on social media channels, the foundation has created a free Teach Children to Save communication toolkit for participating banks to use. The kit includes everything from social media posts, letter templates and graphics – everything your bank needs to spread the word about financial education.

As we work toward the collective goal of increasing financial health in the U.S., reaching out to young people is a great step bankers can take. When bankers engage with the younger members of their communities, it does more than simply provide students with the "nuts and bolts" of financial education – it allows them to interact with their local bank and understand that the two million women and men working in the banking industry are invested in their success. They have the opportunity to see bankers as teachers, experts and as trusted resources in their communities, and they can begin to see the value of having a relationship with a bank.

With all of the financial hardships families have experienced over the past two years, it's more important than ever that the next generation is given the tools and knowledge they need to make prudent financial choices as they grow up. And so, I hope each and every one of you will make the commitment this year to join with the ABA Foundation, take advantage of all the free resources available, and participate in Teach Children to Save and our other financial education initiatives. With your help, we can keep these programs going strong for another 25 years and beyond. ■

To learn more and register for Teach Children to Save, visit aba.com/teach25. For questions on the ABA Foundation's financial literacy programs, contact ABA's Jeni Pastier at jpastier@aba.com.

THE ECONOMY OF RISK

By Mark Anderson, NMBA Legal and Legislative Assistant

A common occurrence in the American news cycle is when a politician touts the overwhelming strength of the economy, citing a low unemployment rate or some other statistic, only to be countered by polling that finds a vast majority of citizens feel uncertainty or outright hopelessness about their own economic situations. Some of that is due to intentional misrepresentation on the part of politicians. Still, there is a genuine disconnect in powerful factions of society about how uncertain the economy has become for most Americans. When viewing every economic trend in America, the first word that comes to mind is risk. Unless you are exceptionally fortunate, it feels like economic risk is around every corner, built into every sector of the economy, sparing only a select few. As a result, it has left millions of Americans feeling quite vulnerable economically, which is only exacerbated by elected officials saying how incredible the economy really is if you just squint hard enough.

Currently, there are competing economic narratives being floated by our government and media, which seemingly contradict each other. First, there is the narrative that the economy is strong, jobs are roaring back, and wages are improving. Then, there is the narrative that inflation is an overwhelming issue for millions of low and middle-income Americans, felt in their purchases of food, household items, and gasoline. These two narratives can't fully exist without one somewhat contradicting the other. A strong economy, one without large swaths of its population living paycheck to paycheck, should be able to endure inflation. However, inflation does become an enormous problem when you have a fundamentally weak economy, one that has little regard for low-wage workers and saddles its citizens with crushing amounts of debt. So, the fact that inflation is affecting Americans so directly and dramatically shows that, in fact, the economy is weak in many important areas.

> It is so crucial to remember that when a country, state, or municipality lifts up its most vulnerable people, the overall quality of life increases for everyone. New Mexicans should be ecstatic that we have leadership in government genuinely trying to make this a better, safer, more vibrant place to live.

Inflation, which is simply a reduction in the purchasing power of money, is most acutely affected by the poorest individuals and households. After decades of dismantling worker protections, many low-wage American workers have been completely abandoned, looking at an apocalyptic economic landscape. Inflation is a factor that exposes low-wage employees to even greater risk. A recent study by the think tank The Brookings Institute details that dynamic. "Price inflation often outstrips growth in wages and transfers, while self-employment income and investment income may be more likely to keep pace with inflation. As such, inflation can reduce the incomes of poorer households relative to those of the richest. Among emerging markets and developing economies, the picture is similar. In Brazil, for example, self-employment and investment income account for a larger share of income in high-income households than in low- and middle-income households. However, the very poorest households also rely on nonmonetary income. Poorer households often lack access to financial products that can protect them against inflation because these products can have upfront or ongoing costs and therefore be unaffordable. For example, in the United States, almost all households have a transaction or checking account at a financial institution. However, far fewer households have savings or investment products. The distribution, moreover, is highly skewed: The wealthiest quartile of U.S. households is five times as likely as the poorest to hold certificates of deposit, six times as likely to hold savings bonds, and 12 times more likely to hold investment funds. High inflation, in short, tends to worsen inequality or poverty because it hits income and savings harder for poorer or middle-income households than for wealthy households. Households that have recently escaped poverty could be pushed back into it by rising inflation."

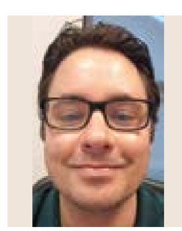
Inflation becomes such an overwhelming issue for the average American because every factor in our economy pushes low and even many middle-income workers into more risk. Factors like unions, universal healthcare, affordable public college, and a higher minimum wage provide protections for workers, thus mitigating their exposure to risk. On the other hand, removing these factors, as we have in America, exposes millions of workers to increased risk and a myriad of externalities. These include homelessness, drug abuse, crime, and being able to provide for their children properly. A society becomes weaker when it refuses to take care of its most vulnerable, and the neglect has a cascading effect, which very few completely escape.

On a local level, during its most recent session, the legislature of New Mexico enacted several bold policy proposals aimed at mitigating some of the economic risk faced by so many in the state. This includes The New Mexico Opportunity Scholarship Act, which waives tuition for students attending any in-state public school or tribal college. Another measure is the Gas Tax Rebate, which would provide two additional temporary tax rebates for filers for tax year 2021. The state has also earmarked $24 million each year to the Mortgage Finance Authority for affordable housing, a huge win for low-income New Mexicans. Finally, the Legislature voted to remove the state's tax on Social Security, allowing seniors a little more peace of mind. These are all terrific steps in providing a bit of a safety net for low-income New Mexicans, people who may need a helping hand for whatever reason. It is so crucial to remember that when a country, state, or municipality lifts up its most vulnerable people, the overall quality of life increases for everyone. New Mexicans should be ecstatic that we have leadership in government genuinely trying to make this a better, safer, more vibrant place to live.

When you look at the plight of the average American, safer, more traditional avenues toward success have been significantly restricted or completely blocked, thus leading millions of people into more uncertain, riskier futures. There are three major components of American upward mobility that have been significantly altered in the last 40 years: education, a job with a decent wage, and homeownership. If you look at the post-World War II economic boom in America, a great deal of it had to do with ease of access to those three things. In the year 2022, a good education, a job with a decent wage, and homeownership are all pipe dreams for millions upon millions of Americans. Higher education has now been loaded with risk in the form of student loan debt. Work has now been loaded with more risk, as many workers have been shuffled into gig economy jobs in the last 15-20 years. Gig economy jobs almost always feature no labor protections, no unionization, and no employer-backed healthcare, placing millions of employees in vulnerable, risky positions. As fewer Americans can afford to own homes, they become forced to rent. Renters are subject to a great deal of risk as well, in the form of rapidly increasing prices and few rental protections.

When we discuss the overarching issues that affect America, economic risk should be one of the first symptoms that are discussed. If you think about your own life, when do you feel most able to make rational decisions? When do you feel most prone to make bad decisions? If someone is on the razor's edge, constantly worrying about scraping money together, then it is far more difficult for that person to lead a responsible, fulfilling life. We have created an economy in this country where a vast majority people are in that position. When we see all these problems popping up (homelessness, drug abuse, crime), it shouldn't be a surprise given the economic decisions we have made and the amount of risk we have exposed people to.

New Mexicans should be proud to see their state's legislature attempting to govern in a way that makes sense and allocating resources to those most in need. Of course, there's no guarantee that it will work, but it is, at the very least, an approach that allows for a fighting chance. There will never be a silver bullet to solve all of society's ills, but there certainly are policies that allow for mitigation. New Mexico has taken an excellent step in the right direction in putting resources into higher education and affordable housing. The local level is where you can have the most direct effect and hopefully, these policies will have a positive impact on the state and municipal levels. We must find examples of leadership and governance that work and implement them on a larger scale. New Mexicans should be pleased that their government is giving the state at least a fighting chance of seeing genuine improvement. That's the least we can ask for as citizens.



Mark Anderson, Legal and Legislative Assistant, New Mexico Bankers Association

BUILDING GREATER STRENGTH WITH FICO

By Kathleen Connellan, VP, Institutional Relationships, BHG Financial

FICO has been what many consider to be the number one stand-alone credit decisioning model since having been first introduced in 1989 by Fair, Isaac Corp. Can we build on that foundation to create a more future-forward way of predicting lending outcomes?

As the world has evolved, so has the way we analyze data. New and exciting technology makes way for innovative algorithms that give us a more defined look at an even greater data set. An all-encompassing view of the bigger borrower story can bring today's lenders to a new point of realization – that these new methods of analyzing credit, combined with the FICO mainstay, may lead to even better outcomes.

Many facets make up an individual's credit story beyond payment history and amounts owed. There is data that, once analyzed, can give critical insights into borrower characteristics unable to be categorized by a single number. That is because people are more dynamic than their credit scores.

Think of a traditional consumer credit scoring model as a printed picture. It is a one-dimensional take on a person's whole life in credit. In that static picture, there are balances on debt obligations, utilization of revolving types of credit, like credit cards, delinquency, statuses, etc. As you know, it comes from the three major credit bureaus (EFX, TU, EXP) and represents a vast cross-section of loans originated by banks, credit unions, finance companies, and other lenders across the credit industry. This information adds up to that single definitive score.

In contrast, non-traditional models that build on the foundation of FICO incorporate additional predictive information. Essentially, it is the motion picture version that enables a more dynamic view of consumer creditworthiness. This model gives lenders an ability to assess point-in-time information and the momentum of trended credit data factors, which may help predict the future credit conditions for a potential borrower and allow a lender to make more informed decisions. They see a greater depth – balances increasing or decreasing, utilization increasing or decreasing, and can capture that relationship with risk outcomes.

Alternative data sources complement static and trended credit history by introducing consumers' checking history, property ownership, and alternative finance activity into credit scoring models. Consumers with comparable credit files can demonstrate vastly different repayment performance; incremental information bearing on creditworthiness equips lenders to optimize risk differentiation when the credit file alone doesn't capture the whole story.

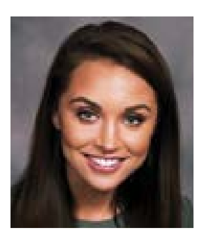
It is no small feat creating a new model on how to calculate and predict high-performing loans. For example, BHG Financial, a leader in unsecured business and personal loans and creator of one of the country's largest community bank loan networks, once relied on the traditional credit scoring model to help with their decision-making. That is, until they evolved their credit model to identify a miscategorized set of high-quality borrowers out there, most lenders were passing by.

Partnering with TransUnion, BHG Financial's data scientists analyzed over 2 million consumer loans. Each loan was over $20,000, had 36+ month terms, and originated between 2015-2017. Billions of pieces of data points were analyzed and assessed to create their proprietary credit model, the rScore.

As a result, they were able to gain faster approvals, identify Sub-Prime borrowers that perform well and Prime borrowers with high default rates, increasing their originations significantly. This success trickles down to their Bank Network which is comprised of over 1400 community banks that purchase their loans. The result – almost $1B in interest earned since 2001.

By working together with the already established success of the FICO score, the chance is lower that good-paying borrowers are labeled as high risk, enabling some lenders to approve pockets of creditworthy consumers that others would decline. At the same time, the chance of labeling risky borrowers as low risk is also diminished, enabling lenders to protect the credit quality of their portfolio.

Where does that leave lenders unable to dedicate time and money to develop their own evolved credit scoring model? The simple answer is to work with companies like BHG Financial and skip the extensive research and the costly origination process. This gives them immediate access to purchasing top-quality loans with low risk which can quickly strengthen their loan portfolio to meet their bank's criteria. This solution is possibly the best answer to finding a more future-forward way of predicting lending outcomes.



To learn more about BHG contact: Kathleen Connellan, VP, Institutional Relationships, 315.509.2723, kConnellan@bhgbanks.com bhgloanhub.com/ KathleenC.

QUESTIONABLE INCOMING WIRES AND WHAT TO DO ABOUT THEM

By Compliance Alliance Staff

One topic we continue to hear about is the prevalence of questionable wires coming into customers' accounts at the bank. Whether it's part of the classic "Nigerian Prince" scam – where a fraudulent wire temporarily hits the customer's account in exchange for a smaller payout from the customer's own funds – or a con artist is wooing an unsuspecting elder from afar, these suspicious transactions seem to be showing up more and more. A common question we receive is, "How can I stop these kinds of shady wires or put a freeze on them before they cause the customer (and by extension the bank) a whole lot of pain?" While the answer to that question is not straightforward, a solution may be simpler than one realizes.

Article 4-A of the UCC generally only requires domestic (not international) wires to be considered final once the receiving bank accepts them; beyond that, there is not any prohibition we're aware of on a receiving bank freezing or sending back wired funds, even if they are not recalled by the sending bank first. Nevertheless, a receiving bank should be aware that there may be some risk with freezing and/or sending back wire funds without some sort of investigation into the circumstances beforehand.

First of all, for incoming domestic wires, there's Regulation CC – wired funds are generally are required to be made available to checking account customers "not later than the business day after" the wire is received (not necessarily accepted under the UCC!) by the incoming bank. Granted, it's always possible to place an exception hold on the wired funds with proper notice to the customer, but the bank should make sure to do at least a rudimentary investigation before placing such a hold in order to substantiate that it is reasonable.

Secondly, beyond the outer time limits stated in Regulation CC, an institution's own funds availability policy may provide an even quicker turnaround time for incoming wired funds to be made available, such as the same day the funds are received. An institution would want to check its availability policy to ensure it contains nothing to legally obligate them to promptly provide wired funds.

Thirdly, even if neither Regulation CC nor the bank's funds availability policy comes into play (like for international wires), there are reputation risks and fairness issues to consider. Especially in service areas with a large international population, it may be seen as an unfair banking practice to, say, place a "writ large" freeze or hold on all incoming international wires no matter what.

Ultimately, though, beyond the Regulation CC, funds availability policy, and reputation risk/fairness issues noted above, we know of no restriction on a bank placing a hold/freeze or returning incoming wired funds before "accepting" them. In fact, in light of things like Office of Foreign Assets Control (OFAC) monitoring requirements under the Bank Secrecy Act (BSA), it may be desirable for an institution to hold or return an incoming wire it's not sure about, especially if that institution isn't used to receiving incoming wires as a regular part of their business. In the end, it will come down to an overall risk determination in light of the bank's practices. But having checks in place on incoming wires – especially international wires coming in from other countries – is generally not prohibited and may even be recommended, as internet-related wire scams continue to increase in popularity. ■

RUNNING CECL IN PARALLEL – WHAT YOU SHOULD KNOW

By Jay Kenney, SVP & Southwest Regional Manager, PCBB

The Federal Reserve reports that *"on Jan. 1, 2020, most large and mid-sized U.S. banks adopted Current Expected Credit Losses (CECL)."* As a result, about 80% of all U.S. bank loans are now under the new accounting standard. Community banks have the option of adopting CECL now, but few are interested in climbing aboard before their deadline on Jan. 1, 2023. Still, most are following AICPA recommendations and are taking the time to run parallel CECL systems to make sure they're ready. Through our work with our customers, we have uncovered these ***three guiding principles*** and some pointers to help your institution stay on track as you perform your parallel runs.

A parallel run requires extra effort because it compels bankers to assemble resources. But it's a good way to make sure that your institution is genuinely prepared to operate under CECL. After all, it's important to think through all the eventualities. It's better to take the time for two or more dry runs that cover what you need when you go live, such as additional data, adjusted Q Factors, your procedures, documentation, etc. Through these parallel runs, you may find related issues that your planning didn't reveal.

1. Don't let the parallel process run on autopilot.

Running in parallel is a time to make sure things are running as they should. Executives need to stay hands-on, ensuring the bank has necessary processes in place, including ongoing assumption documentation. You'll probably need to adjust your assumptions. Downstream changes are likely to affect both your model and your documentation, so plan to share these with examiners as well.

Our expertise has shown that these four categories should be addressed to keep things running smoothly while giving you vital feedback to incorporate into the model.

- **Accessing and deploying resources.** Who will build and run your parallel CECL process? Will the effort involve vendors? Identify your team, whether internal or external.
- **Using the appropriate technical functions.** Determine how you'll select a modeling approach, as well as your resources, and then schedule for conducting system integration testing and user acceptance testing. Plan to run quality assurance testing throughout the parallel run. You're essentially testing the functionality you'll need for processing the allowance for credit losses and related disclosures.
- **Setting up operations.** With technical issues resolved, you'll move to following the target operating model design sequence, with the goal of producing an allowance for credit losses and external quantitative reporting disclosures.
- **Defining the process for approving credit-loss allowances.** Run this process for two to four quarters with your credit-losses approval committee. Take an especially careful look at what they feel caused allowance changes between one period and the next, as well as considering the qualitative overlays included in the credit-loss allowance.

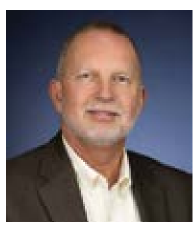
2. Talk with auditors and your regulatory agencies.

Get their early feedback and support for your CECL assumptions. Your chosen model should be in harmony with your projected growth, as well as in line with whatever strategic initiatives you've planned for 2022. Auditors and regulators may see your situation as more or less complex in light of even small changes to your growth or strategy. Be prepared by getting this input before it is too late to make any adjustments.

3. Let the data guide you.

Make sure that you pick the right supplemental data, and then let that data guide you. Supplemental data needs to be reliable, consistent, and relevant to your institution's situation. Once you've chosen your data, pay attention and respond accordingly. Don't needlessly overcomplicate your compliance process, but be diligent.

CECL is here within a matter of months. Is your institution on track? If not, let us know. We have helped many community bank customers implement CECL and run in parallel. We can help you keep moving on other matters at hand. ■



Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes cash management, international services, lending solutions, and risk management advisory services. To learn more, contact Jay Kenney at pcbb.com or jkenney@pcbb.com.

BANK NEWS

GSBC, Leeds School of Business Partner to Offer Executive Leadership Certificate in 2022

The Graduate School of Banking at Colorado (GSBC) has announced its new Certificate in Executive Leadership, developed in partnership with the University of Colorado Boulder Leeds School of Business.

GSBC alumni may earn this certification by attending GSBC's Community Bankers Summit, scheduled for July 25-27, 2022, on CU Boulder's campus during the school's 71st Annual School Session.

The first day of the Community Bankers Summit will be community banking focused with GSBC faculty members discussing critical issues, including attracting and retaining top talent, remaining competitive with cryptocurrency in the faster payments space, fintech strategy, gender diversity among bank leaders and the mergers and acquisitions landscape.

For the remaining two days of the Summit, participants will focus on earning their Certificate in Executive Leadership. Courses taught by Leeds School of Business faculty members will include *Understanding the Organization as a System, Leading Organizational Change, Creating an Ethical Climate, Leading Through a Crisis and Leader Reactions.*

"Working with the Leeds School of Business to provide this opportunity to our alumni is an important contribution to the continued development and success of the community banking industry," stated GSBC President Michael Stevens. "We look forward to having our alumni back on campus!"

The Certificate in Executive Leadership is available exclusively to alumni of GSBC and builds on the leadership skills gained during their time at the school. To provide a homecoming aspect to the program, attendees are welcome to participate in GSBC's Alumni Association Golf Tournament and Pearl Street Mall Early Arrivers Reception on Sunday, July 24, before the program begins on Monday, July 25.

New FID Director Named

The Financial Institutions Division (FID) has selected Mr. Mark Sadowski as the new FID Director. Mr. Sadowski has more than 36 years of financial institution experience in a variety of finance, operational, marketing, and technical positions. He has extensive knowledge of asset/liability management, investment management, and operational innovation and efficiency.

Mr. Sadowski has a Bachelor of Science in Finance, specializing in financial institution management and a minor in Economics, from the University of Southern Illinois-Carbondale. He is also a volunteer Advanced Emergency Medical Technician, Structural I, and Certified Wildland Firefighter. He continues to serve as an EMS/Fire Lieutenant for the Cochiti Fire Department, Cochiti Lake, NM, where he has served since May 2016. Mr. Sadowski says of joining the FID, "I am honored to join the FID Team, working with the industries we oversee, and further serving the residents of the State of New Mexico."

FIVE STRATEGIES FOR STRENGTHENING YOUR BANK'S CYBERSECURITY POSTURE

By Steve Sanders, CSI

In its seventh annual survey, CSI asked banking executives from across the nation about their top strategies and priorities for 2022. The results were used to inform the 2022 Banking Priorities Executive Report, which details the challenges and opportunities in today's financial landscape.

When asked about the one issue that will most affect the financial industry in 2022, it's no surprise that cybersecurity (26%) outranked the other two leading issues – recruiting/retaining employees (21%) and regulatory change (14%).

What Did Bankers Identify as the Top Cybersecurity Threats for 2022?

According to the 2022 results, an overwhelming majority of bankers view employee-targeted phishing (57%) as the top cybersecurity threat, with customer-targeted phishing (51%) following closely. Often the result of social engineering schemes, 48% of bankers worry about the threat of ransomware.

As cybercriminals enhance their tactics to continue targeting data-rich institutions, this concern is well-founded. Ransomware is a type of malware that locks out the authorized user once installed and encrypts the available data to hold for ransom, posing an operational and reputational risk. Incidents of ransomware have risen, with the global attack volume skyrocketing by more than 150% for the first half of 2021 compared to the previous year.

The current geopolitical climate, greater reliance on digital channels and increased turnover in a variety of industries have created an environment ripe for vulnerabilities. And cybercriminals are wasting no time exploiting the weaknesses and vulnerabilities of systems to launch sophisticated attacks.

Unfortunately, the availability and automated nature of modern ransomware allows an attack to be initiated with limited upfront costs and maintenance from criminals. Since ransomware attacks pose little risk to the hacker, provide a quick payout for criminals and are carried out relatively easily and anonymously, institutions should remain on high alert to identify and combat these threats.

How to Strengthen Your Bank's Cybersecurity Posture

As incidents of ransomware and other attacks increase in frequency and sophistication, consider the following strategies to enhance your bank's cybersecurity posture:

- **Prioritize Cybersecurity Training:** With 41% of bankers emphasizing employee/board cybersecurity training, most understand that the "people factor" represents an institution's biggest potential weakness. To create a cybersecurity-focused culture, ensure employees are familiar with the latest threats and know how to identify the warning signs. If employees fail social engineering tests, revisit your strategy to provide real examples of phishing as well as incentives for employees to do their part.
- **Raise Customer Awareness:** Only 18% of bankers identified customer cybersecurity training as a top tactic in 2022, but it's important to remember that banks benefit significantly from an informed customer base. Since customers, especially those newest to digital banking, are another component of the "people

factor," institutions must ensure they reinforce the importance of good cyber hygiene through cybersecurity awareness programs, which could include videos and gamification.

- **Update Your Incident Response Plan (IRP):** Institutions must consider all the operational, financial and reputational implications of being held hostage to ransomware. Your bank's IRP should include planning for data and system backups, communication plans, business continuity plans if employees or customers are unable to access your systems and dealing with the attackers. You don't want to confront those issues for the first time during a ransomware attack. With 23% of bankers reporting IRP testing as a top tactic to combat cyber threats, remember that maintaining a tested IRP puts your bank in a stronger position to withstand an attack.
- **Conduct Vendor Due Diligence:** Even if your internal systems and employees are prepared for a cybersecurity attack, your bank is vulnerable if an external vendor does not adhere to the same defense standards. Appropriate cybersecurity due diligence and regular monitoring should be conducted on all third-party vendors, especially any external vendor who has access to your sensitive data or systems. This process is critical to mitigate risk of supply chain attacks, which have surged in the past year.
- **Implement Multi-Factor Authentication (MFA):** Incorporate MFA into all applications where employees – or customers – must enter their credentials. With MFA, multiple authentication factors are required to verify a user's identity, preventing unauthorized account access. This verification strengthens resiliency and provides an effective defense against the two largest threat vectors: social engineering and phishing. When confronted with this extra obstacle, many hackers will move to a less secure target.

Maximize Protections with a Layered Approach to Cybersecurity

As institutions navigate the changing cybersecurity landscape, embracing a layered approach to cybersecurity will maximize protections for your bank. Implementing multiple layers of security – including cybersecurity training and tools – makes it more difficult for cybercriminals to infiltrate your systems and keeps employees and customers secure.

Download CSI's 2022 Banking Priorities Executive Report for additional insight into bankers' perceptions of cyber threats, technology, compliance and more.

Steve Sanders serves as CSI's chief information security officer. In his role, Steve leads CSI's information security vision, strategy and program and chairs the company's Information Security Committee. He also oversees vulnerability monitoring and awareness programs as well as information security training. With over 15 years of experience focused on cybersecurity, information security and privacy, he employs his strong background in audit, information security and IT security to help board members and senior management gain command of cyber-risk oversight.

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IN MEMORIAM

William “Bing” Grady

William (Bing) Grady passed away at the age of 89 on Feb. 9, 2022, from complications of COVID-19. Bing was born in Cambridge, MA to Mary V. Grady (Buckley) and William G. Grady on Nov. 22, 1932. He was preceded in death by his first wife of 60 years, Carmoline Grady, his parents and his younger brother Tom. He is survived by his wife, Kellie Green Grady; half-brother, Bob Hayden; sister-in-law Connie Ochsner; brother-in-law Michael Green; and several cousins. Bing wanted it said: “I have been blessed to know and love two incredible women in my life, Carmoline and Kellie. Together they made my journey all worthwhile.”

Bing graduated from St. Mary’s High School in Albuquerque in 1950 and UNM with a BBA in 1955. Shortly after his marriage to Carmoline in 1955, he was drafted into the U.S. Army. After two years, he returned to UNM for an MA in Economics. In 1951, Bing began working at the Albuquerque National Bank as a mail boy. He worked there part-time while attending UNM and then full-time after receiving his MA. He was named VP of the bank in 1967 and President in 1977, the capacity in which he served until his retirement in 1992. Among the many awards he received were the UNM Economics Department Centennial Distinguished Alumni Award, the NM Spirit of Achievement Award, and the National Jewish Center Award. In 1992, he was entered into the Hall of Fame of the UNM Anderson School of Management.

His responsibilities at Albuquerque National Bank included a strong role in community affairs. He was Chairman of the New Mexico Bankers Association (1988-1989), President of the Greater Albuquerque Chamber of Commerce and the Albuquerque Economic Development Corporation, and President of the New Mexico Symphony Orchestra. He was appointed to the State of New Mexico Investment Council and the Governor’s Economic Advisory Council by the late Governor Bruce King. Senators Bingaman and Domenici appointed him the founding Chairman of New Mexico First. Bing loved watching all sports, but baseball was his true passion, the Boston Red Sox in particular. He also enjoyed golfing with his friends several days a week at Albuquerque Country Club.

Above all of Bing’s accomplishments were his kind spirit and great intellect. He was a voracious reader, and his dry wit served him well in many facets of his life.

JW “Bill” Craig

JW (Bill) Craig, age 94, of Albuquerque, passed away on Jan 21, 2022. He was a beloved dad, grandfather, and great-grandfather. Bill was born on Dec. 6, 1927, in Davenport, Iowa. He served in the Coast Guard and Air Force from 1945-to 1952 and was honorably discharged. During this time, he met the love of his life, Charlene Mullins. They were married for 55 wonderful years, until her death in June 2005. Bill had an extensive banking and finance career that began in 1949. He was an officer of First National Bank in Albuquerque from 1960 to 1970. He then joined Bank of New Mexico (which later became First Interstate Bank) and became President. In 1985, he became President of United New Mexico Bank, which became a part of Norwest Bank and later merged with Wells Fargo Bank. Bill served as Vice Chairman from 1990 to 2003.

Bill served as a board member and treasurer of the New Mexico Bankers Association and served on the board of the Western States School of Banking. He served as chairman of the Albuquerque Salvation Army, as an active member of the UNM Lobo Club and served as its President. He was active for many years on the board of Albuquerque Economic Development, where he served two terms as President and became a life member. He was a member of the Albuquerque Country Club since 1970 and served many years as a board member. Bill always tried to give back to Albuquerque as much as the city gave to him.

Bill is survived by his daughter Cindy Houston, son Frank Craig (Denise Craig), grandsons Matthew Houston (Jennifer Houston) and Reese Craig, granddaughter Caitlin Burt (Tyler Burt), great-grandsons Lincoln Craig Burt and Wells Cameron Burt, and great-granddaughters Scarlett Charlene Burt and Audrey Olivia Houston.

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