The
Nebraska Independent Banker

Issue 3, 2022

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NICB Nebraska Independent Community Bankers


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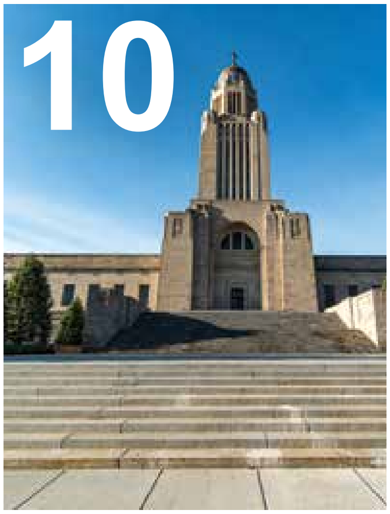

NICB Nebraska Independent Community Bankers

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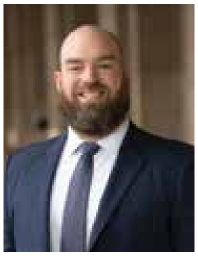

PRESIDENT'S MESSAGE

Community Aspect of NICB Shines Through

Dexter Schrodt
President and CEO, NICB

I've now been on board as President and CEO for a few months and have enjoyed diving into all the moving pieces of the NICB, including getting to know some of our board members better. No doubt, there is still a lot to learn and appreciate about running this long-standing organization. My main takeaway thus far, however, is that the "community" in NICB is more than just a part of the organization's name.

To start, "community" at the NICB became apparent to me during the interviews for this position. At one point in the process, I met with a good portion of the board, and it was here that I began to realize how close-knit they were. Sitting around the table were leaders that someone on the outside could have easily viewed as competitors, yet it was apparent these board members had relationships that spanned years and went beyond their lines of work.

After starting in this role, it did not take long for me to feel welcomed and part of this community. Everyone I've met thus far, whether it be a board member, bank member, or one of our vendor partners, has been warm, welcoming and helpful from the get-go. It is clear to me that what matters most to all involved is the success of NICB and preserving what that connection means to our community bank members.

Beyond how I've been welcomed into the NICB, I have also been able to experience and see the importance of community to our members as I've visited with them in their banks. From Lyons to Loomis, one common theme I've seen has been the support for the local high school, with the mascot logo either painted on a window or on the sidewalk in front of the bank. As someone who grew up in a small town, seeing the mascot logos reminded me of what it is like to be part of a community where everyone is cheering on your success. It is a special feeling that is easy to lose appreciation for when you live in a bigger city like Lincoln or Omaha.

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Beyond how I've been welcomed into the NICB, I have also been able to experience and see the importance of community to our members as I've visited with them in their banks.

When speaking with the bank leaders in these communities, it is clear they cheer on success, not only for the high school sports teams but also for their customers. I was told several times it is okay lending or extended credit for their ag customers was down this year, even if it results in less revenue for the bank because that meant those ag producers had a decent year last year and will continue to have a good year this growing season.

To me, this is the greatest example of community I have seen, and the perfect primer to the values of our NICB members. My goal is to not only ensure the NICB continues to foster all these different types of "community," but also to spread the message to policymakers and other stakeholders about what community means to our members.

INSURANCE FOR BANKS

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Property & Casualty
- General Liability
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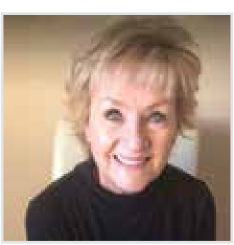

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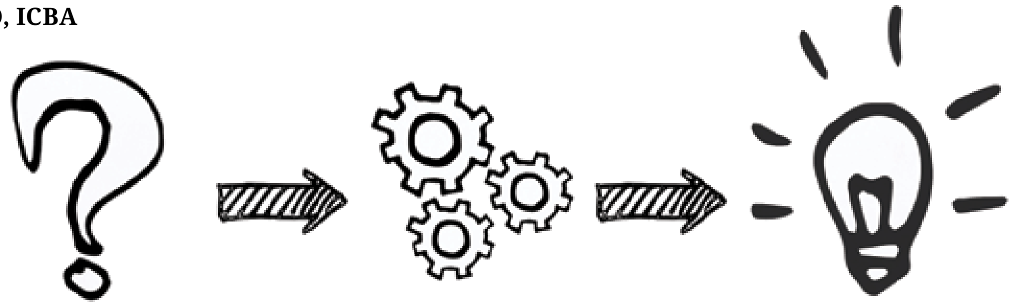
UNICO

FLOURISH

By Rebeca Romero Rainey, President and CEO, ICBA



"By focusing on the problems we're trying to solve and how those solutions will benefit our customers, we can separate timely initiatives from those that can wait."

In today's climate, the road ahead feels uncertain. Between growing inflation and fluctuating interest rates, the future may seem more clouded than ever, leaving us to ponder, "Where's the crystal ball when you need it?"

Yet, it doesn't require clairvoyance to chart our path ahead; we can rely on our history and our experiences to map the course. For hundreds of years, community banks have stood strong, adapting to market changes and evolving to serve our communities. Through industry highs and lows, community banks have risen on a foundation of relationship banking and thoughtful preparation.

Market shifts mean we must come back to those basics today, focusing on our strengths and what we can do to continue to excel. What sets us apart? How can we best demonstrate our commitment to our communities in the products and services we offer? Examining our strategic initiatives through this lens will help us ensure we aren't simply reacting to a sense of urgency but proactively preparing for what lies ahead.

And we wouldn't be community banks if we didn't approach our businesses from a customer-first mentality. Fortunately, we have access to technological tools that enable data to tell our success stories. We have information on customer preferences, behaviors and needs, which, in turn, allows us to make strategic decisions about how to prioritize our efforts and get real success stories out into the mainstream.

But with everything in life, we can't do it all. We need to prioritize as we enter budget discussions over the next few months. Our banks, customers and communities will benefit when we align objectives with the potential solutions or opportunities that will make the most impact. By focusing on the problems we're trying to solve and how those solutions will benefit our customers, we can separate timely initiatives from those that can wait.

As you read this month's budget issue, we hope you uncover ICBA resources to support you in your planning. From courses with Community Banker University to our ThinkTECH initiatives to Bancard's Payments Strategy Guide and the ICBA Tell Your Story Marketing and Communications toolkit, we strive to provide solutions to help you address this post-pandemic society of instant gratification and digital transformation in a thoughtful, strategic manner.

It's no surprise that uncertain times lie ahead, but I can confidently say that community banks will continue to thrive with ICBA by their side. I don't need a crystal ball to tell me that, though, because as they say, the best predictor of the future is past behavior, and for community banks, our steadfast history bears repeating for the customers and communities that continue to depend on us.

Where I'll be this month

Like you, I'll be kicking off our budget processes at ICBA, and with that spirit of fresh opportunities in mind, I'll be dropping my oldest daughter off at college, and my youngest will be starting high school.

Rebeca Romero Rainey, President and CEO, ICBA

Questions, Issues and Strategies Involved In Opening Accounts Online

By Sharvelle Washington, CAMS, BSA/Compliance Officer, Bankers' Bank of the West

The new era of opening accounts online is here. Over time, more people have been opting to open accounts online instead of in person at a branch, as some of us might be used to. And with online account opening come uncertainties in staying compliant with Bank Secrecy Act requirements.

Even though the process of account openings has evolved, the requirements for opening accounts remain the same. This raises a question: How is it possible to verify someone's identity without that person being present?

Of course, there are third-party vendors with solutions that can be integrated into the financial institution's interface to collect all the data needed to open an account. But before the decision is made to integrate online account openings, it's important to do a bit of research and resolve some crucial questions.

Start by determining your financial institution's risk tolerance for online account openings. This will hinge, in part, on the products an online applicant could enroll in. Risk tolerance varies from bank to bank and depends on the types of products offered by each institution.

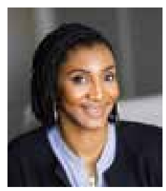
Next, conduct comprehensive due diligence on the third-party vendors you're considering. Compare what several companies offer with respect to the data collection process and their methods of verifying the customer. Determine whether the vendor is able to collect scanned or captured photo IDs and a live photo at the time of enrollment, and find out what you'll be able to provide when an auditor asks for verifying information. Make sure you'll have easy access to this information.

Never ignore red flags or evasiveness on the part of a vendor. If a potential service provider is unable or unwilling to give you satisfactory answers, it's not the right vendor for your institution.

Don't forget to create a marketing strategy for engaging new customers to open accounts online. Visual appeal is important today:

- Showing what the process entails could entice more people to sign up.
- Referrals from current customers may also draw in more new customers.

Finally, stay positive throughout the entire process. Opening accounts online is still a fairly new advancement in the financial services industry. Everyone is still learning and adjusting to changing times.



Sharvelle Washington, CAMS, BSA/Compliance Officer, Bankers' Bank of the West

INDEPENDENT BANKER PORTFOLIO MANAGEMENT

By Jim Reber,
ICBA Securities

Bonds with bounce

Floaters are gaining popularity. Again.

The financial press, economic commentators and social media sites have used a collection of terms this year that convey a certain image of market values for investment securities: "Plummet," "Underwater," "Leaking oil," and "Nosedive." I think you get the picture.

Community bankers have come to grips with the notion of their bond portfolios being – ahem – "submerged" in a number of ways. Most of these thoughts and actions are quite logical and, from a safety and soundness perspective, responsible.

Asset/liability risk postures are still suggesting higher net interest margins. Liquidity, in the sense of the availability of short-term assets on demand, is still plentiful. Many banks are prepared for deposit runoff if that ever happens. And then, there is once again the notion that floating rate assets can actually be a salvation from a yield and price stability point of view.

Reward may be returning

This column, in many cases, reflects what your correspondent hears from community bankers at conventions, seminars and old-fashioned discussions. It has been a number of years since adjustable-rate bonds have appeared in this space, mainly because they have had yields or prices almost impossible for investors to like. More recently, using the outbreak of the COVID-19 pandemic as a starting point, portfolio managers were almost forced to buy fixed-rate investments to stabilize their shrinking ("plunging?") net interest margins. This very column's headline in December 2020 was "The One Percenters," and it went through the progression of what it took for an investment to yield 1.0% to maturity. Trust me when I say it was not a money-market equivalent.

Now, as several rate hikes are behind us and more are likely on the way, even the shortest securities are approaching yield respectability. The remainder of this column will discuss several of the more popular options, with the hope that you can find one or more that may be suitable for your own bank's portfolio. Do we dare to say "buoyant?"

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Liquidity, in the sense of the availability of short-term assets on demand, is still plentiful. Many banks are prepared for deposit runoff if that ever happens. And then, there is once again the notion that floating rate assets can actually be a salvation from a yield and price stability point of view.

Most adjustable

The most rate-sensitive, and therefore price-stable, investments have these standard features:

- Visible, liquid money-market index
- Short reset periods
- High or no interest rate caps, both periodic and life
- Near-term first reset date

Each of these is built into Small Business Administration (SBA) 7(a) pools. A further sweetener is that SBAs are full faith and credit instruments and 0% risk-weighted. It's possible to buy these to effectively yield the prime rate minus 2.4%, which is the same as saying fed funds plus 0.6%. That may not sound exciting until one considers that it's conceivable the net yield could be approaching 3% a few quarters from now. Another enticement is the market values of 7(a)s are remarkably stable. Most pricing models project that they would be down only about 2%, even in a high-rate shock environment.

It must be said that many of these pools can come to market with high premium prices of 10 points or more, which absolutely creates prepayment risk to the investor. There are ways to manage this exposure beyond the scope of this column, which your brokers can explain. Still, it's safe to say 2022 is built for a bond like an SBA 7(a).

Also in the discussion

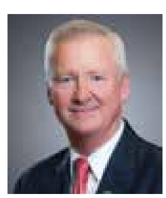
Mortgage-backed securities (MBS) come in several different adjustable-rate models. Among the more popular are collateralized mortgage obligation (CMO) floaters. These have some of the characteristics of an SBA, in that there are no periodic caps, and they float based on money-market indices, such as the secured overnight financing rate (SOFR). One comment is that they have very low priority to cash flows, so their prepayments and average lives can fluctuate wildly. Most investors don't mind, as CMO floaters' appeal is their quick reaction to rate changes. Be careful of those lifetime caps, however: They could be in the 4.0% range, which means their market values will lose some ground in higher rate scenarios.

Commercial MBS, such as Freddie Mac's "Ks," also come in floating rate structures. Their indices are often SOFR, and they also have no periodic caps. Because Freddie Ks are collateralized by multifamily projects, they, too, can see very inconsistent cash flow if some of the larger properties experience prepayments. Again, like CMOs, these usually come to market with little or no premium, so the early payoffs may not hurt the yields. You'll want to pay attention to the lifetime caps on these as well.

All told, the expected path of monetary policy in 2022 should bode well for money-market alternatives, both for price stability and yield. Bonds that are submerged could be nicely complemented by short-duration instruments. Floaters may just be the answer to restore some levity to your investment portfolio.

ICBA Securities Names New Directors

ICBA Securities recently added these leadership bankers to its board of directors: Tommy Bates, Legends Bank, Clarksville, Tenn.; Blake Heid, First Option Bank, Paola, Kan.; Craig Wanichek, Summit Bank, Eugene, Ore.; and Aza Bittinger, Community Bankers Association of Ohio, Columbus, Ohio.



Jim Reber, CPA, CFA (jreber@icbasecurities.com) is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks.

NICB LEGISLATIVE UPDATE
From Zulkoski Weber

It has been a productive year of work with the Nebraska Legislature for the Nebraska Independent Community Bankers. Once-in-a-generation legislation was passed to lower corporate and personal income taxes and allocate federal stimulus funding for housing, childcare, and community development. For all the progress made, this session should also be noted for the harmful legislation that did not pass – a bill to change bank franchise taxes and a constitutional amendment to move Nebraska to a consumption tax system. This session was also marked by the addition of one of NICB's own members to the Legislature with the appointment of Senator Mike Jacobson. During the general election on November 8, Nebraskans will elect a new governor and at least sixteen new senators for the 2023 session. The work will be ongoing to build new community bank champions and educate policymakers.

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2023 LEGISLATIVE CANDIDATES

(Primary Winner in Bold)

LD2: Rob Clements (R) – Elmwood (*Incumbent*)
Sarah Slattery (D) – Plattsmouth

LD4: Brad von Gillern (R) – Elkhorn,
Cindy Maxwell-Ostdiek (I) – Omaha

LD6: Machaela Cavanaugh (D) – Omaha (*Incumbent*)
Christian Mirch (R) – Omaha

LD8: Megan Hunt (D) – Omaha (*Incumbent*)
Marilyn Arant Asher (R) – Omaha

LD10: Wendy DeBoer (D) – Bennington *(Incumbent)*
Lou Ann Goding (R) – Omaha

LD12: Merv Riepe (R) – Ralston
Robin Richards (D) – Ralston

LD14: John Arch (R) – La Vista (*Incumbent*)
[likely Speaker], Cori Villegas (D) – Papillion

LD16: Ben Hansen (R) – Blair (*Incumbent*)
Connie Petersen (R) – Hoskins

LD18: Michael Young (D) – Omaha
Christy Armendariz (R) – Omaha

LD20: Stu Dornan (R) – Omaha
John Fredrickson (D) – Omaha

LD22: Mike Moser (R) – Columbus (*Incumbent*)
Roy Zach – Genoa

LD24: Patrick Hotovy (R) – York
Jana Hughes (R) – Seward

LD26: Russ Barger (R) – Lincoln
George Dungan (D) – Lincoln

LD28: Jane Raybould (D) – Lincoln
Roy Christensen (R) – Lincoln

LD30: Myron Dorn (R) – Adams (*Incumbent*)

LD31: Kathleen Kauth (R) – Omaha (*Appointed Incumbent*) (ballot will be set based on Sept. 1 signature collection)

LD32: Tom Brandt (R) – Plymouth (*Incumbent*)

LD34: Loren Lippincott (R) – Central City
Michael Reimers (R) – Central City

LD36: Rick Holdcroft (R) – Bellevue
Angie Lauritsen (D) – Gretna

LD38: Dave Murman (R) – Glenvil (*Incumbent*)
Tyler Cappel (L) – Arapahoe

LD40: Barry DeKay (R) – Niobrara
Keith Kube (R) – Crofton

LD42: Chris Bruns (R) – North Platte, Mike Jacobson (R) – North Platte (*Appointed Incumbent*)

LD44: Teresa Ibach (R) – Sumner (opponent dropped out)

LD46: Danielle Conrad (D) – Lincoln
James Michael Bowers (D) – Lincoln

LD48: Brian Hardin (R) – Gering
Don Lease II R) – Bridgeport

INTERIM STUDIES

Since Governor Pete Ricketts announced there will be no special session on abortion this year; interim studies will have lawmakers' full attention this fall. Interim studies provide an opportunity to examine any topic of interest while the legislature is not in session. While not every study will receive attention, many will be used to craft legislation for next year's session.

Interim studies have begun to have scheduled hearings, where legislators invite experts and stakeholders to inform on the topic. We'll keep an eye on these interim hearings and let you know when your voice needs to be at the table so that senators have the full picture of how policies will affect you, the banking industry, and your community.

Below is a list of the studies we have earmarked for NICB. As of this writing, no hearings have been scheduled.

- **LR333** (*McDonnell*) Interim study to examine modernization of Nebraska's tax system with the goal of facilitating economic growth
- **LR364** (*Wishart*) Interim study to explore the establishment of an insurtech regulatory sandbox
- **LR371** (*Williams*) Interim study to review the requirements regarding occupational regulation as administered by the Department of Banking and Finance
- **LR383** (*Erdman*) Interim study to explore best practices for the implementation of a consumption tax in Nebraska
- **LR416** (*Lindstrom*) Interim study to examine the risks and potential adverse economic consequences to the State of Nebraska and its residents, from the transfer of business interests from one generation to the next
- **LR418** (*Bostar*) Interim study to examine the sales tax system in Nebraska concerning exemptions provided to various industries
- **LR422** (*Wayne*) Interim study to examine issues related to the Middle-Income Workforce Housing Investment Act

It is our pleasure to work with NICB. Please do not hesitate to reach out to us at any time.

Katie, Michelle, and Joselyn

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FROM THE TOP

By Brad M. Bolton, Chairman, ICBA

The people behind a community bank make it what it is. Our relationships with our customers begin and end with us, so it's our obligation to ensure our employees embrace our values and care about the community. To do that, we need to draw in team members who are not only seeking nine-to-five jobs but also are striving to become community continuators.

Engaging this higher caliber of employee doesn't come without a cost. As bankers, we're forced to look at efficiency ratios, and personnel generally tops the list of non-interest expenses scrutinized by regulators. While we certainly have to be careful here, we also have to consider that we're in a service industry. If our efficiency ratio creeps up to 75%, and that's what we need it to be to effectively manage our customer relationships, we have to go there.

Because at the end of the day, what's best for our customers is what's best for us.

However, in managing that line item, employee retention comes into play. Keeping our best and brightest on board has to be a priority to save on hiring and recruiting costs and strengthen our banks.

For example, covering obligations for your strong performers to attend banking schools not only helps your bank gain more knowledgeable employees; it also helps them excel. Or, creating flexible "soft" benefits that meet your employees in the stage of life they're in can help them shine at work while still prioritizing their family situation. As a bonus, those employees will be more loyal to your bank for providing them with these opportunities.

"Keeping our best and brightest on board has to be a priority, both to save on hiring and recruiting costs and to strengthen our banks."

I've found small acts of kindness go a long way. I recently had a team member who went above and beyond to get a loan closed; I sent her a personal note to show my appreciation and compliment her efforts. Her response? "Thank you. I needed to hear that." It cements that saying "thank you" matters, and we, as leaders, need to take the time to offer them.

So, as you read this month's budget and compensation issue, I encourage you to think about your team in a different light. Community bank employees fill a special role, unlike no other position in the market today, and we must do a better job of telling that story. We need to continually recognize the role that community continuators, such as you and your teams, play, and the impact we all make on the communities we serve.

MY TOP THREE

Employer rules to live by:

1. Tailor your benefits to the employee's season of life.
2. Focus on the people who make up your efficiency ratio.
3. The Apostle Paul never failed to thank people; follow his lead.

Brad M. Bolton is president and CEO of Community Spirit Bank in Red Bay, Ala. Connect with him on Twitter at Brad @BradMBolton.

Brushing Up on Disclosures for ARMs

By William J. Showalter, CRCM, CRP, Senior Consultant, Young & Associates, Inc.

Now that interest rates are beginning to move up, many bankers are blowing the dust off their adjustable-rate mortgage (ARM) loan offerings. Interest rates for fixed-rate loans have been so low for quite some time, which made them much more appealing to mortgage loan customers. But now, with rates starting to increase, the lower initial rates of ARM loans are beginning to look more appealing, at least to some borrowers.

The problem is that many of us are so out of practice making ARMs that we need a refresher to remind us what to do. This article serves as a primer to help us re-learn how to meet disclosure requirements for ARM loans.

Different types of ARMs

When we think of an adjustable-rate mortgage, the first thing that comes to mind is likely the classic loan with an interest rate that can change at some regular interval based on the movement of some external index. There is a wide variety of initial periods for which the rate is fixed and later intervals for rate changes over the life of the loan. Common initial fixed periods are one, three, five, seven, or 10 years, while probably the most common interval for later rate changes is one year.

But that is not where the variety of ARMs ends. The Official Staff Commentary on Regulation Z discusses a number of other loan structures considered variable-rate transactions subject to the ARM disclosure requirements. These additional loan structures are:

- Renewable balloon-payment loans where the creditor is both unconditionally obligated to renew the balloon-payment loan at the consumer's option (or is obligated to renew subject to conditions within the consumer's control) and has the option of increasing the interest rate at the time of renewal.
- Preferred-rate loans where the terms of the legal obligation provide that the initial underlying rate is fixed but will increase upon the occurrence of some event (e.g., an employee leaving the employ of the creditor or an automatic payment arrangement being ended) and the note reflects the preferred rate (though a number of the ARM disclosures are not required for preferred-rate loans).
- "Price-level-adjusted mortgages" or other indexed mortgages that have a fixed rate of interest but provide periodic adjustments to payments, and the loan balance reflects changes in an index

- measuring prices or inflation (again, a number of the ARM disclosures are not required for price-level-adjusted loans).

It is important to note that graduated-payment mortgages and step-rate transactions without a variable-rate feature are not considered variable-rate transactions under Regulation Z. This is likely because changes over the loan are known at the outset – specified payment and/or interest rate increases.

> When we think of an adjustable-rate mortgage, the first thing that comes to mind is likely the classic loan with an interest rate that can change at some regular interval based on the movement of some external index.

Application disclosures

Two ARM disclosures must be given to applicants for such loans when an application form is provided or before the consumer pays a non-refundable fee, whichever is earlier. There is an exception that allows the disclosures to be delivered or placed in the mail no later than three business days following receipt of a consumer's application when the application reaches the creditor by telephone or through an intermediary agent or broker.

For an application accessed by the consumer in electronic form – including an online application portal – the required ARM disclosures may be provided to the consumer in electronic form on or with the application.

These two early ARM disclosures are:

- The booklet titled Consumer Handbook on Adjustable Rate Mortgages (CHARM booklet), or a suitable substitute; and
- A loan program disclosure for each variable-rate program in which the consumer expresses an interest (each comprised of 12 specified pieces of information about the ARM program).

TRID disclosures

The Loan Estimate (LE) and Closing Disclosure (CD) require additional disclosures for ARMs. The LE must be provided to an applicant no later than the third business day after their application is received by the lender, while the CD must be provided no later than three business days before consummation. (There are also situations permitting or requiring these disclosures to be revised, but that's a subject for another time.)

The particular TRID (TILA-RESPA Integrated Disclosures) items impacted by a loan being an ARM are:

- "Interest Rate" in the "Loan Terms" section – If the interest rate at consummation is not known, the rate disclosed must be the fully-indexed rate, which means the interest rate calculated using the index value and margin at the time of consummation. The lender also should disclose "Yes" to the question, "Can this amount increase after closing?" In addition, disclose the frequency of interest rate adjustments, the date when the interest rate may first adjust, the maximum interest rate, and the first date when the interest rate can reach the maximum interest rate, followed by a reference to the Adjustable Interest Rate (AIR) Table (discussed below).
- "Monthly Principal & Interest Payment" in the "Loan Terms" section – If the initial periodic payment is not known because it will be based on an interest rate at consummation that is not known at the time the LE must be provided, for example, if it is based on an external index that may fluctuate before consummation, this disclosure must be based on the fully-indexed rate disclosed above. The lender also should disclose "Yes" to the question, "Can this amount increase after closing?" In addition, disclose the scheduled frequency of adjustments to the periodic principal and interest payment, the due date of the first adjusted principal and interest payment, the maximum possible periodic principal and interest payment, and the date when the periodic principal and interest payment may first equal the maximum principal and interest payment.
- "Principal & Interest" payment in the "Projected Payments" section – The table of payments (principal and interest, mortgage insurance, etc.) will include more than one column due to the possible (projected) changes in the interest rate, up to a maximum of four columns. The maximum principal and interest payment amounts (in each column) are determined by assuming that the interest rate in effect throughout the loan term is the maximum possible interest rate, and the minimum amounts are determined by assuming that the interest rate in effect throughout the loan term is the minimum possible interest rate. If the ARM has a negative amortization feature, the maximum payment amounts must reflect this feature, as spelled out in Regulation Z.
- "Adjustable Interest Rate (AIR) Table" – An ARM must disclose a separate table in the "Closing

CONTINUED ON PAGE 16

The creditor, assignee, or servicer of an ARM secured by a borrower's principal dwelling must provide consumers with written notices in connection with the adjustment of interest rates in accordance with the loan contract that results in a corresponding adjustment to the payment.

CONTINUED FROM PAGE 15

- Cost Details" section on the LE and the "Additional Information About This Loan" section on the CD, under the heading "Adjustable Interest Rate (AIR) Table," that contains specified information about the index and margin, increases in the interest rate, initial interest rate, minimum and maximum interest rate, frequency of adjustments, and limits on interest rate changes.
- "Annual Percentage Rate (APR)" and "Total Interest Percentage (TIP)" in the "Comparisons" section on the LE and the Loan Calculations section on the CD – Calculation of both of these values must account for variations in the interest rate permitted for the ARM.

Interest rate/payment change notices

The creditor, assignee, or servicer of an ARM secured by a borrower's principal dwelling must provide consumers with written notices in connection with the adjustment of interest rates in accordance with the loan contract that results in a corresponding adjustment to the payment. These notices must be separate from any other disclosures or notices.

There are exemptions for the following: ARMs with a term of one year or less; first interest rate adjustment to an ARM if the first payment at the adjusted level is due within 210 days after consummation and the new interest rate disclosed at consummation was not an estimate; or when the lender/servicer is subject to the Fair Debt Collection Practices Act (FDCPA) for the particular loan and the customer has sent a notice to cease communications.

The content for these change notices is spelled out in Regulation Z, and the timing depends on whether the rate/payment change is the first to occur for the ARM loan or a subsequent change.

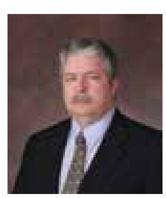
- The initial adjustment notice must be provided to consumers at least 210 – but no more than 240 – days before the first payment at the adjusted level is due. If the first payment at the adjusted level is due within the first 210 days after consummation, the disclosures must be provided at consummation.
- All subsequent adjustment notices generally must be provided to consumers at least 60 – but no more than 120 – days before the first payment at the adjusted level is due. The disclosures must be provided to consumers at least 25 – but no more than 120 – days before the first payment at the adjusted level is due for ARMs with uniformly scheduled interest rate adjustments occurring every 60 days or more frequently and for ARMs originated prior to Jan. 10, 2015, in which the loan contract requires the adjusted interest rate and payment to be calculated based on the index figure available as of a date that is less than 45 days before the adjustment date.

Periodic statements

If your bank has taken advantage of the "coupon book" exception from periodic statements for mortgage loans with fixed rates, you will have to begin producing periodic statements when you begin originating ARMs. Or you will need to expand your statement output as more of the bank's loan production shifts to ARMs from fixed-rate loans (if you still want to use the coupon books exception for your fixed-rate lending).

Conclusion

If your institution is like many community banks and has not been making ARMs for some time, you likely have some work to do to ramp ARM lending back up. Systems and disclosures need to be updated and/or activated. Disclosures need to be procured or prepared. Staff needs to be trained, at least some refresher training. Good luck re-ARMing up.



William J. Showalter, CRCM, CRP, is a Senior Consultant with Young & Associates, Inc. (www.younginc.com), with over 35 years of experience in compliance consulting, advising and assisting financial institutions on consumer compliance and compliance management issues. He also develops and conducts compliance training programs for individual banks and their trade associations and has authored or co-authored numerous compliance publications and articles. Bill can be reached at (330) 678-0524 or wshowalter@younginc.com.

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15-NOV Mortgage Lending Compliance Overview
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Compliance Characteristics of a Better Fintech Partnership

By Nellie Szczech, BHG Financial

Deciding which fintech to partner with in today's regulatory environment can be a difficult road to navigate, especially moving forward during rocky economic times. That's why it's more important than ever for community banks to perform comprehensive due diligence on any third-party organization that provides services to them.

As with all new financial relationships, a best practice before moving ahead calls for a full assessment of any potential partner's capabilities to gauge whether it's a safe and beneficial move. It requires questioning how much value will be brought to the table, if they have a successful working history with banks, and if the company complies with and surpasses all your institution's compliance expectations.

One industry leader worth noting is BHG Financial, boasting an exemplary track record of success working with financial institutions of all sizes. They offer many innovative income opportunities to help community banks achieve asset growth and portfolio diversification by adding top-performing borrowers to their books through membership to the BHG Bank Network. Membership comes with access to a full suite of programs that span business, consumer, and SBA 7(a) loans, collection services, risk management services, and point-of-sale financing.

Moreover, they have an invaluable reputation for going above and beyond to adhere to all laws, regulations, internal policies, procedures, and programs. Their commitment to protecting partner banks by maintaining strict adherence to compliance requirements is inherent when you're a fintech that has developed the most extensive community banking network in the country of more than 1,450 members nationwide.

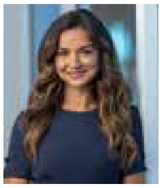
Characteristics of a Compliant Partnership

For community banks considering a partnership with any fintech, BHG Financial has the characteristics of exactly what to look for:

1. An established enterprise compliance risk management program to set standards and expectations, roles and responsibilities, and core program components.
2. Promotes and achieves a strong and proactive culture of compliance throughout the firm to consistently meet its legal and regulatory requirements.
3. Best-in-class expertise in navigating the ever-changing world of compliance and risk.

About BHG Financial

BHG Financial is transforming the financial industry – leveraging the power of data, analytics, and cutting-edge technology to become the number one source for professional loans and the creator of the largest community bank network in the country. To date, BHG has originated more than $10 billion in loan solutions for top-quality borrowers, which community and midsize banks can access through a state-of-the-art loan delivery platform: The BHG Loan Hub.



Interested in learning more? BHG believes in the power of great relationships and encourages you to ask your partner banks if they have joined the BHG Bank Network. We're also happy to connect you directly with any of their partners in your specific state. For more information, contact Nellie Szczech at 315.509.2637 or nellie@bhgbanks.com.

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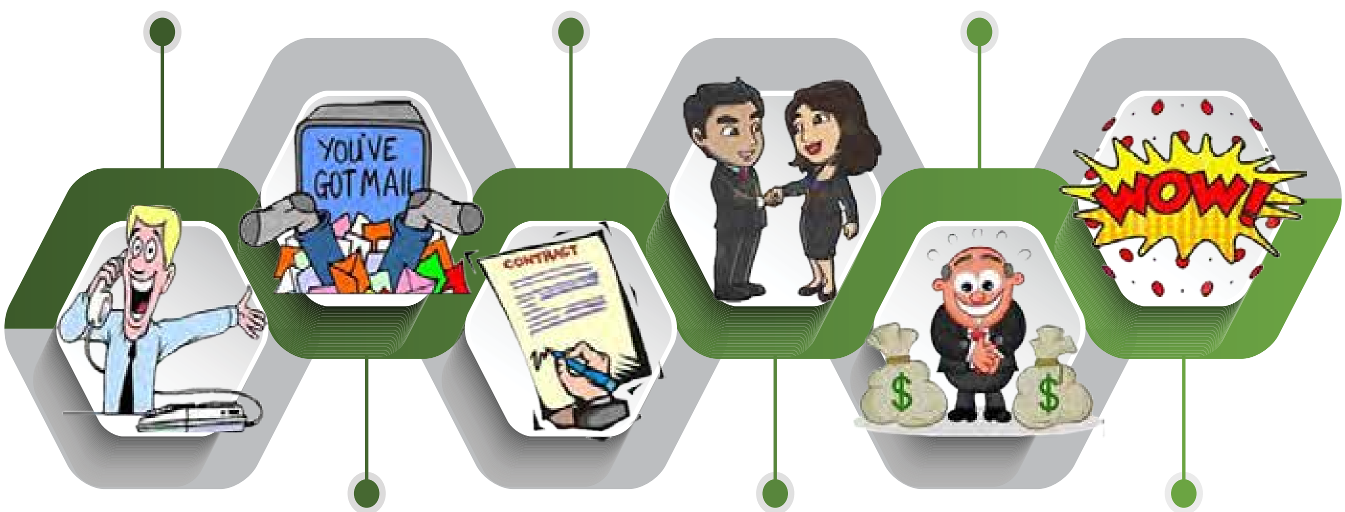

2. You email us the appropriate documents of information.

4. Meeting the customer. We will come to you to sign loan documents.

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Threats Evolve

The threats change. The need for robust security doesn’t.

Ransomware continues to be a persistent threat—and an evolving one. While phishing remains the attack vector responsible for the majority of ransomware incidents, cited in 54% of cases, the next three leading causes are poor user practices, lack of cybersecurity training, and weak password/security protocols.

For financial institutions, simple awareness, training, and diligence can go a long way to reducing the risk of a ransomware incident. Banks will always be a focal point for criminals, and as technology evolves, criminals evolve.

If you have questions about the evolving threat landscape and how your institution can be more secure, call ITPAC today.

Nebraska Independent Community Bankers

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