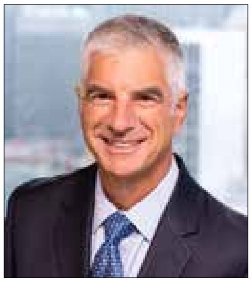
March 2022

Looking Back – And Ahead



By Glen Simecek, President and CEO, Washington Bankers Association

As the WBA ends its fiscal year this month, I find myself more optimistic than I have been in a long time. The pandemic period we have all grappled with over the past two years appears to be finally tapering, and we are returning to what feels more like "normal."

From the perspective of the WBA, I am pleased to share the news that our strong financial performance has enabled us to freeze our dues again this year. Dues are based on deposit size and have been held at 2019 levels despite the 36 percent growth in deposits since the calculation was completed before the pandemic.

I am equally pleased to see the evolution of our programs reflect many of the lessons learned in the pandemic that leave us even more prepared. Finally, I am optimistic about the team at the WBA that has embraced new tools and assumed new responsibilities as we transitioned to more virtual events.

One area of WBA operations that deserves special attention is our education and training programs. Throughout the pandemic, our staff and volunteer leadership have worked diligently to make these vital programs available to our members, despite restrictions on in-person gatherings, and ensured they were full of timely, relevant topics.

Many of our programs moved to a virtual format, a service delivery trend we had begun back in the pre-pandemic days of 2019. This experience has taught us a great deal about what works and what doesn't in the remote delivery of professional education. In some cases, virtual sessions have been quite successful. The format provides more convenient access to participants from around the state while supporting the effective sharing of materials and instruction. However, we also determined that the virtual structure did not facilitate effective learning for

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In This Issue

Issues & Answers – March 2022

The official publication of the Washington Bankers Association is sponsored by Vericast and WBA Professional Services.

Contact Us
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On the Cover
Flowers dot the landscape at Dalles Mountain Ranch at Columbia Hills State Park overlooking the Columbia River Gorge.
Photo courtesy of Flickr by Jeff Hollett

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program participants in other situations where group collaboration and networking are critical.

Going forward, we have adopted a similar approach to our conferences; where it makes sense in-person events will be the rule; however, other conferences that have struggled to attract participants will likely be discontinued or alternative formats considered. We will also look at opportunities to partner with our sister organizations in Oregon, Idaho, and other Western states.

We are grateful for the bankers' expertise who help us make these decisions to ensure that our educational programs are efficiently delivered and effectively support our members build their skills. We welcome feedback from all WBA members on how we can maximize the value of these programs.

That said, we are very excited with our plans to move more of our major conferences back to in-person in the coming year, including our annual Convention, which we are sponsoring in conjunction with our counterparts from the Idaho, Nevada, and Oregon Bankers Associations. It will be held July 11-13 at the beautiful Coeur d'Alene resort, and I encourage all WBA members to attend. In addition to valuable updates from industry and regulatory leaders, it's an excellent opportunity to resume networking with friends from across the industry.

Other conferences, covering everything from Agriculture to Education/Human Resources, are planned as in-person events later this spring. Others, like our Fintech Conference, will be held virtually. You can find a complete list of these conferences and other professional development opportunities at www.wabankers.com/calendar.

As an advocacy organization, I can't ignore the legislature, which concluded its 2022 session earlier this month. Hopefully, this will be our last virtual session as it placed enormous challenges on our lobbying team and essential volunteers. While we concluded the legislative session with only a few adverse outcomes, the priorities of many lawmakers were very troubling, including efforts to punish banks for climate change, further tilting the field to benefit credit unions, and increasing the size of the budget rather than cutting taxes for consumers and businesses or building the rainy day fund.

This year is an election year, and your support for the PAC will enable us to continue to support candidates and groups that recognize the value of banking and our clients, who are the lifeblood of our communities. Look for a more detailed update soon on the changes that will impact your bank and your customers.

In closing, I want to thank you for the support that allowed us to succeed over the past year. Like you, we know it's impossible to predict with any certainty what the coming fiscal year will hold for WBA. And again, like you, we know that we will face rising costs and continuing disruptions as the economy and our industry recover from the shocks of the past two years. Given this inherent uncertainty, we're very heartened to see how the banking industry has adapted, and we look forward to continuing that journey with you.

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Northwest Compliance Conference Returns In Person

After two years of virtual events, the Northwest Compliance Conference returned in person in early February. The event, which covered lending and operations-related compliance, also provided plenty of networking time, specifically included by the planning committee understanding the pent-up desire to meet in person.

Leah Hamilton, vice president and senior consultant with ProBank Austin, kicked off the event with an update on mortgage servicing, including how the changes will continue to impact the industry over the last several years. She also highlighted the Consumer Financial Protection Bureau's (CFPB) request for information on HMDA data effectiveness and other regulatory updates.

Sharon Stedman, principal of Stedman Consulting Group, followed Hamilton with a discussion of fair lending topics, looking at the newest legal cases and enforcement actions. She also covered the Dodd-Frank Act Section 1071 rule on small business lending and HUD's rulemaking on disparate impact.

Following lunch, Hamilton returned to the stage to update the attendees on flood insurance, including a discussion on the new rules that FEMA put in place last fall.

Dave McCrea, founding principal of CompAssured, hosted a discussion on Unfair, Deceptive or Abusive Acts or Practices (UDAAP) and Fair Debt Collection Practices Act (FDCPA). He shared which collection practices apply to banks and which apply to third parties, including what banks need to watch for in this area.

To close out the first day, attendees submitted questions to McCrea and Hamilton for a hot topics panel discussion, ranging from specific questions on servicing issues, fair lending, and more.

On the second day of the event, focused on operations compliance, ABA's Senior Counsel for Regulatory Compliance Jonathan Thessin provided an industry update. He shared how some of the new administration changes at the regulatory agencies are likely to impact the industry and areas to watch in the coming months.

Following Thessin, Scott Alldridge, CEO of IP Services and WBA's Senior Vice President Duncan Taylor, hosted a fireside chat about cybersecurity.

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Alldridge shared some of the key trends he sees in cyber.

Hamilton returned for a discussion of Regulation E, focusing on credit card liability-related issues. With unauthorized transactions on the rise, she explained how regulators scrutinize banks and the differences between the regulation's liability requirements and the MasterCard/Visa Zero Liability language.

McCrea also returned on the second day for a session on risk assessments. A critical component for any compliance program, he outlined best practices for creating new assessments and updating and evaluating.

Following lunch, Hamilton closed out the conference with an update on overdrafts and account fees. Now a primary focus for the CFBP and FDIC, she highlighted ways banks should be looking at these programs and potential industry shifts coming soon.

Thank you to our generous sponsors for helping make this year's event a success. Sponsors for 2022 included Compliance Services Group, Peoples Bank, StrategyCorp, and Vericast, formerly Harland Clarke.

Oregon Bankers Association · WBA

2022 NW COMPLIANCE CONFERENCE

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Calling All Managers – Build Your Career with the Management Development Program

"This has been one of the most beneficial courses I have ever taken. It was challenging, but it made the information that we learned more valuable and helped me apply what I have learned. The different speakers were professional, and the fact that they are the experts in their field enabled us to learn from the best and stay engaged for the entire six weeks," from a testimonial by a recent **Management Development Program** graduate.

If managers in your organization are ready to tackle a new challenge and build their careers, WBA's MDP is a significant next step. The program begins in April and includes six sessions, focusing on building managers' skills. The classes will be held virtually this year, with the final two sessions held in Seattle.

"I feel empowered to be a better me. I am so thankful to have had the opportunity to attend," said another graduate. "I have taken away a better sense of confidence and will work towards the personal goals I have set for myself. I will always remember that vulnerability is a pathway to being courageous, not a sign of weakness."

Space in MDP is filling quickly, so make sure to register early!

Another opportunity for managers to grow their careers is attending this year's **Virtual Retail Sales & Leadership Conference** on March 29. Featured speakers include Cindy Solomon, who will host a session during the conference, a special afternoon workshop for in-person attendees, and Deanna Davis on thriving in the workplace.

The same week, WBA will host the **2022 Marketing Conference** on March 31 at the DoubleTree Seattle Airport. Amber Farley, executive vice president of brand development at Financial Marketing Solutions, will headline the event with a session on the current media landscape and where banks should focus. She'll also host a workshop session in the afternoon focusing on ways banks can help lenders build and increase their presence on LinkedIn. Other speakers include Jim Pannos and Eric Cook on using data and the future of digital marketing.

On April 20-21, WBA will host the **Virtual Fintech Conference**. The event includes a session with JP Nicols, cofounder of Fintech Forge and Alloy Labs Alliance, discussing what he sees in the industry and Rich Carlton, president and chief revenue officer of Aunalytics, on how to enhance the customer experience using AI technology. The conference also includes the popular Buzz Sessions, where attendees join roundtables with subject matter experts for a discussion.

WBA is co-sponsoring the **2022 American Mortgage Conference** with the American Bankers Association and North Carolina Bankers Association on April 25-27. The event will take place at Pinehurst Resort in North Carolina and features a wide variety of mortgage-related topics and sessions.

On May 10, the **Northwest Agriculture Conference** will return to the Three Rivers Convention Center in Kennewick, followed by a day-long training session specifically for ag lenders on May 11. This conference features Curt Covington, senior director of institution credit at AgAmerica Lending, and Shawn Hackett, who will discuss how weather cycles, sunspots, and the pandemic influence ag markets.

The **2022 Education/Human Resources Conference** will be held at the Historic Davenport Hotel in Spokane on May 17-18. Cynthia Clay, CEO of NetSpeed Learning, will speak at the event on leading successful teams in a hybrid environment.

Please visit the WBA website at www.wabankers.com for more information about registration for any of our upcoming programs.

Registration Now Open for 2022 Annual Convention

Registration is now open for the 2022 Bankers Convention on July 11-13 at Coeur d'Alene Resort, cohosted by the Idaho, Nevada, and Oregon Bankers Associations.

The agenda features a candid conversation wtih Mark Calabria, former head of the FHFA, economic advisor to Vice President Pence, and current senior advisor at The Cato Institute will be on hand to discuss his time in D.C. and an outlook for the industry.

We're also excited to welcome Carmen Best, the former chief of police for the City of Seattle, who will share her unique perspective of leading the city through a very challenge time in history.

Learn more, register online and book your room at www.bankersconference.com/convention.

Events Calendar

March 29 – Virtual Retail Sales & Leadership Conference

March 31 – Marketing Conference, DoubleTree Suites Seattle Airport

April 19 – Hybrid Management Development Program

April 20-21 – Virtual Fintech Conference

May 10 – NW Agriculture Conference, Three Rivers Conference Center, Kennewick

May 17-18 – Education/Human Resources Conference, Historic Davenport Hotel, Spokane

July 11-13 – 2022 IBA, NBA, OBA, WBA Annual Convention, Coeur d'Alene, ID

September 15 – Virtual Credit Analyst Development Program

October 28 – Women in Banking Conference, Seattle Renaissance Hotel

To register or to learn more about any of the listed events, please visit www.wabankers.com/calendar.

What the FDIC Resignation Means for Banking Policy

This article was reprinted with permission from the Texas Bankers Association.

By John Heasley, General Counsel, Texas Bankers Association

The Federal Deposit Insurance Corporation was created in 1933 in the early days of the Franklin Delano Roosevelt administration in an effort to bring stability to the banking system in the aftermath of bank runs. It became one of the many independent agencies in the executive branch that was designed not to be dominated by one party or one administration. The FDIC Board of five, including the chair, cannot have more than three members from a single political party. The Senate-confirmed chair has a five year term. For the last 88 years it has functioned independently with the chair setting the agenda for each meeting.

That has all changed. We are now in the Biden era of progressive and aggressive banking regulation.

Jelena McWilliams was the Trump appointed chair with a term set to expire in June of 2023. The other four board seats include one vacancy as vice-chair, CFPB Director Rohit Chopra, acting Comptroller of the Currency Michael Hsu and Martin Gruenberg, the former FDIC chair as a Democrat appointee. Once Chopra was confirmed at the CFPB, he immediately pushed for a change in how the agency reviews potential mergers. McWilliams indicated she needed to have staff review the request before placing it on the FDIC agenda. Chopra then asked for a legal opinion from the Justice Department on the chair's power to set the agenda. Chopra then went around the FDIC administrative process by publishing the merger evaluation proposal in a CFPB publication. He was joined by Hsu and Gruenberg.

McWilliams fired back with some public statements and an op-ed but she could read the handwriting on the wall. It is speculated that the next step would have been that the insurgents, led by Chopra, would use their three FDIC Board seats to change the bylaws to allow for FDIC agendas that were more in line with Biden administration priorities. McWilliams probably acted to protect the FDIC as an institution and to avoid the inevitable infighting that would go on for the next 18 months. Gruenberg has been appointed as acting chair, but it is Chopra who will be running the show.

The bank merger issue that started the FDIC dispute was about applying more antitrust scrutiny to potential mergers. It is aimed at pending mergers that will result in institutions that will end up having $50 to $100 billion in assets. (If the aim is to look at concentration and market power the administration might be better advised to look at the five entities that control over 50% of deposits and assets.) An unstated reason may be that holding up mergers could benefit self-styled community reinvestment groups in order to extract more dollars and loan commitments from the merged banks.

From an industry perspective, the loss of McWilliams means the loss of a conservative voice in banking regulatory policy. For example, she abstained from voting on the climate change policy statement issued by the Financial Stability Oversight Council last year. Her involvement will also be missed as the agencies start implementing fair lending regulations reminiscent of the Obama years. The recently proposed Section 1071 small business loan reporting edict will now apply to FDIC regulated banks in the same time frame that it applies to OCC and Fed-regulated banks.

The big winner in all of these agency shake-ups is Senator Elizabeth Warren. She may have lost the Democratic nomination to Joe Biden but she has been ceded the authority to put her hand-picked minions in several regulatory agencies. Chopra helped her set up the CFPB. She has two more of her acolytes in the Treasury Department and another at the FTC.

Welcome to the brave new world of banking supervision.

WBA Member News

1st Security Bank of Washington Supports United Way of Thurston County

In early 2022, 1st Security Bank of Washington announced a donation to the United Way of Thurston County's Emergency Assistance Fund (EAF).

The $5,000 donation helped respond to the flooding in Thurston County and affected residents impacted. The EAF provides food, clothing, and other necessary household and hygiene items.

U.S. Bank Seattle Volunteers to Pack, Sort at Food Lifeline

The U.S. Bank Seattle team members volunteered at Food Lifeline, where they packed and sorted food.

The group sorted over 14,000 pounds of food in just two hours.

"Helping serve our community and connecting with my co-workers is just a win, win!" said Kristy Dickson, consumer and business banking market leader for U.S. Bank.

Olympia Federal Savings Announces Employee of the Quarter

Olympia Federal Savings announced in early 2022 that the employee of the quarter for the fourth quarter of 2021 was Bret Bajema.

Bajema is the Hawks Prairie branch manager and was nominated by his peers for his leadership, character, impact, and going above and beyond for his colleagues, customers, and community.

"Bret embodies all of OlyFed's values, which is what makes him such an amazing leader," said Lori Drummond, president, and CEO of OlyFed. "Whether it's unassumingly cleaning up the outside of the branch early in the morning or mentoring new employees for future success in their careers in banking; Bret consistently goes above and beyond, creating time for others and making every effort to ensure they know their valued and their needs are his priority."

Kitsap Bank Announces Over $400,000 in Donations to Area Non-Profits

Kitsap Bank announced in early 2022 that it would be donating over $400,000 to area non-profits as part of the bank's Community Connections program.

"At Kitsap Bank, we believe that growth starts right here at home," said Steve Politakis, bank CEO. "We are invested in supporting our local neighbors, giving back to those who need it most."

Kitsap Bank supports many non-profit organizations every year, including arts and culture, education and youth, environment and sustainability, homelessness and hunger, economic and business development, and more.

Over the past five years, the bank has invested over $2 million into the community through sponsorships, donations, and volunteer activities.

Olympia Federal Savings Donates Over $2,500 to PARC Foundation of Thurston County

Olympia Federal Savings announced earlier in the year that its January $.2 program partner PARC Foundation of Thurston County would be receiving a $2,562 donation.

The organization works to preserve the vital green spaces, expand and support works of art and artists in the community, ensure all citizens have access to recreational opportunities and celebrate cultural activity in Thurston County.

Yakima Federal Savings Donates to Tri-Cities Cancer Center Foundation

In early 2022, Yakima Federal Savings announced a $2,000 donation to the Tri-Cities Cancer Center Foundation.

The funds will help the non-profit fix their Cancer Crushing Van, which helps provide transportation to community members to their cancer treatments.

Baker Boyer Bank Announces Employee of the Quarter

Baker Boyer Bank announced in early 2022 that Tori Anguiano was the employee of the quarter for the fourth quarter of 2021.

Anguiano joined the bank in 2019 and is the executive assistant to Vesna Dodge and a paraplanner with the bank's Financial Planning Department.

"Tori has been a role model in our department. She has such an amazing work ethic and an extremely positive attitude. She is

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someone others feel like they can talk to and go to for advice. She always strives to continually learn and grow and be an asset for Baker Boyer and our clients."

Kitsap Bank Announces Employee of the Quarter

Kitsap Bank announced in early 2022 that Lisa Asbjornsen was named the employee of the quarter for the fourth quarter of 2021.

Asbjornsen, a senior loan coordinator, joined the Kitsap Bank team in 2019 and was chosen for the honor by her colleagues for her outstanding drive and professionalism. They said she makes the needs of her team the number one priority and is always willing to go above and beyond.

"Lisa is a valuable employee; her hard work and dedication to our clients makes her a valuable member of the Kitsap Bank team," said Toni Smith, vice president, and loan coordinator manager. "She is kind, efficient, knowledgeable, and we're very pleased to honor her with this award."

1st Security Bank of Washington Donates to Year-End Celebration Event at Ocosta Elementary School

1st Security Bank of Washington donated $250 to Ocosta Elementary School in Westport for a year-end bike celebration at the end of January.

The school uses the event to support student learning.

JPMorgan Chase Volunteers with United Way of Pierce County

In February, members of the JPMorgan Chase team volunteered with United Way of Pierce County to provide hygiene kits for unhoused neighbors in Tacoma.

The group of volunteers assembled 100 kits of products for community members.

Kitsap Bank Spreads the Love on Valentine's Day with $15,000 in Donations to Local Non-Profits

On Valentine's Day, Kitsap Bank made a surprise announcement that it would be donating $15,000 to local non-profit organizations as part of the bank's mission to cause good in the communities it serves.

For every hour that Kitsap Bank employees volunteered in 2021, the bank donated money to a non-profit of their choice. Despite the challenges that 2021 brought, employees still volunteered over 1,400 hours in their communities. Selected non-profits received notification of the surprise donations on Valentine's Day. Twenty-two different organizations received funds from Making a Difference (MAD) For Our Community Program.

"Kitsap Bank has a strong tradition of community involvement," stated Steve Politakis, CEO of Kitsap Bank. "I am proud that our employees, even with the pandemic, were able to find a way to give back to their communities safely. Their dedication, commitment, and capacity to contribute not only makes them a great asset to Kitsap Bank, but also to our communities in which we live and work."

If you have WBA member news to share, please email Megan Managan at megan@wabankers.com. Submissions are run on a space available basis.

Industry News

New Hires

Craig Jetton
Customer Service Representative at Olympia Federal Savings

Molly Verduzco
Customer Service Representative at Olympia Federal Savings

Keisha Walton
Loan Operations Assistant at Olympia Federal Savings

Benjamin Ybarra
Customer Service Representative at Olympia Federal Savings

Michael Roberts
Universal Operations Assistant at Olympia Federal Savings

Mandee Taylor
Loan Officer at Olympia Federal Savings

Megan Dunnington
Universal Banker at Olympia Federal Savings

Mason Pitts
Customer Service Representative at Olympia Federal Savings

Benjamin Johnson
Universal Banker at Olympia Federal Savings

Levonne Loe
Customer Service Representative at Olympia Federal Savings

Gregory Morgan
Customer Service Representative at Olympia Federal Savings

Jacob Compton
Mortgage Loan Officer at Peoples Bank

Griselda Lopez
Vice President, Commercial Banking Officer at Peoples Bank

Tony Miller
Vice President and Credit Officer at Kitsap Bank

Mike Hollingsworth
Vice President and Business Treasury Officer at 1st Security Bank of Washington

Carol Kowalski
Vice President of Business, Community, and Government Relations at Kitsap Bank

Ryan Saldana
Branch Manager at Commencement Bank

Conner Freke
Universal Bank at First Fed Bank

Promotions

Josh Williams
Executive Vice President and Chief Banking Officer and Head of Partnerships at Seattle Bank

Laynie Nguyen
Executive Director, Market Director of Banking at JPMorgan Chase

Charles Robertson
Senior Vice President and Chief Retail Officer at Kitsap Bank

Dorothy Haffey-Shoecraft
Vice President and Credit Officer at Kitsap Bank

Retirements

Mary Lou Williams
First Fed Bank

Have Industry News to share with WBA? Email megan@wabankers.com or call (206) 344-3472.

WBA Endorsed Vendor: Harland Clarke, a Vericast Business

The New Competitive Landscape and the Need to Know Yourself Better Than Ever

By Stephenie Williams, Executive Director - Acquisition Solutions, Harland Clarke

In the face of increasing competition on all fronts, it's more important than ever to align your objectives with specific target markets that will help your financial institution (FI) achieve its overarching strategic objectives. Moving forward, the ever-conscience of those objectives will ensure you create specialized strategies that speak to each market (no more one-size-fits-all acquisition strategies).

The New Competitive Landscape

The fact of the matter is that consumers have more choices than ever to meet their banking needs. From traditional banks and credit unions to payday and peer-to-peer lenders, check cashing services, P2P payments services, retailers, and most recently, fintech companies themselves, conventional financial services providers must go to market more strategically than ever to hit their targets for the lowest possible acquisition cost.

A look at some statistics paints a clearer picture. As of 2017, the number of banks in the U.S. totaled 4,918, down from 7,077 in 2008. As of June 2018, there were 5,594 chartered credit unions, compared to 12,333 in 1994. In addition to fewer bank and credit union choices, the stricter regulatory environment has also created headwinds for traditional financial services providers and opened the door even further for non-traditional financial services providers. In 2018, Quicken Loans announced it overtook Wells Fargo as the number 1 lender in the U.S.

Because more players are battling it out for the same share of wallet—and because they are faced with a burdensome and costly regulatory environment—traditional depository institution marketing departments must stretch every marketing dollar for maximum return.

Aligning Targeting with Strategic Objectives

Acquisition programs must be in alignment with strategic objectives. You must think through what specific tactics will get you where you need to be. The most successful acquisition programs begin with understanding the institution's particular checking and household acquisition goals.

Questions that need answering include:

- Is there a focus on specific areas or consumer segments?
- What is the definition of success?
- What are the likes and dislikes of current programs or initiatives?
- What key performance indicators (KPIs) are currently being measured, and which are the most relevant?

While it may seem easy to pick out which segments and market areas to target, how to attract them involves a fair amount of analytical know-how. To analyze which products and services are most likely to appeal to your targeted segments, you must undertake a holistic approach to analyzing the acquisition journey.

Analyzing the Acquisition Journey

There are three phases to the acquisition journey:

- Descriptive — what has happened
- Predictive — what will happen
- Prescriptive — what should the institution do about it

The secret to unlocking all three phases is your account holder's data. By analyzing it, you can glean what has already happened. You can slice and dice it across thousands of different data subsets by using advanced algorithmic techniques. By building independent models for each subset, you can evaluate their performance, choosing the best ones to predict the future with a high degree of accuracy. The account holder data within the financial institution offers a competitive advantage not likely enjoyed by non-traditional, point solution-focused financial services providers. The wealth of deposit, loan, digital, transactional, behavioral, and demographic information available within the FI means you can more accurately model characteristics of current account holders who look like your desired targets.

For the last phase, by aligning the descriptive and predictive findings with the strategy and goals of your institution, you can create and implement a prescriptive plan. This can happen in various ways, but there's likely the best way for your financial institution, based on your specific needs and goals.

For example, if your FI has determined that capturing more account holders within the Gen Z cohort will help meet its overarching strategic objectives, building a profile of existing Gen Z account holders will help you understand their preferred products, most used features, and channels, transactional behaviors and more. This enables you to go to market with offers for products, services, and features relevant to that target market.

In reality, there are many attributes to be analyzed—and the more details included in your analysis, the more accurately you can focus your marketing efforts. Chances are, however, unless your FI employs one or more data scientists, it's best to leave this complex analytical analysis and modeling to the experts.

There are many experts available to assist with your strategic acquisition efforts. Using a third party allows you to leverage their analytical expertise and provides you unparalleled access to a host of consumer insights not readily available within the FI. When combined with the wealth of account holder information you already own, the FI is achieved the highest degree of targeting possible, helping to achieve the highest possible return on marketing investment.

Managing Your Balance Sheet During “Inflation Conflation”

By John P. Biestman, Vice President and Senior Relationship Manager, Federal Home Loan Bank of Des Moines

During a visit to the local gas station, I was reminded that more than a few quarters were required to activate the air pump needed to inflate my tires. Having not used a coin during the past two years, I found myself longing for the days when the air was free. I think that’s called “inflation!”

Hot Numbers

Not long ago, inflation readings were well within the confines of the Federal Reserve’s target of 2.0%. We’re now very familiar with such headlines as the Consumer Price Index has risen by 7.0% in December 2021 over the prior year – a 40-year record high. No doubt, the recent conflation of inflation readings has been gaining momentum. It seems that producer and servicer prices are increasingly permeating the consumer level. Perhaps it’s that pent-up demand for dental appointments or soaring lumber prices in the wake of the nation’s severe housing shortage. Labor costs are now surging. The closely followed Q4 2021 Labor Department’s Employment Cost Index registered an increase of 4.0% over the past month – a 21-year record high. In 2022, the word “transitory” will likely become the most despised entry in the financial dictionary! The next few months could continue to witness rising prices as demand rises, wages increase, and consumers spend their past two years’ savings.

Watching Inflation “Break-Even”

Now more than ever, it’s time to focus on your balance sheet’s sensitivity to potential shifts in rates and the yield curve. Hence, the question at hand: Where does inflation go from here? For one, markets represent a proxy to inflationary expectations. For instance, over the past three months, the difference between Treasury Inflation-Protected Bonds (“TIPS”) and their counterpart Treasury yields has been at its widest spread since 2008. Of late, the spread has been hovering around 2.77% and currently assumes a five-year Treasury note with a yield of 1.80% versus a negative 0.97% yield on five-year inflation-protected Treasury notes. This spread (2.77%) is known as the “break-even” inflation rate. It implies that if actual inflation is higher than the break-even rate, in this case, 2.77%, an investor would be better off owning inflation-adjusted Treasuries than they would be on standard five-year Treasuries.

Rate Sensitivity and Shifting Inflationary Estimates

Shifting inflationary estimates prompt the assessment of so-called “bear-steepener” scenarios. These days, many banks, to their benefit, view themselves as asset-sensitive. This means that their assets are re-pricing more frequently than their funding. Still, it’s always healthy to ask yourself the question: “Is my bank as asset-sensitive as it was a year ago?” As rates have risen, many banks have been: a) reaching out on the yield curve for higher investment returns, given flat loan demand, b) having customers ask for longer loan maturities and c) facing more volatile non-maturity deposit duration assumptions during an excess liquidity environment. Interest rate sensitivity can change rapidly. These and other developments warrant frequent re-assessment of your asset and liability duration assumptions.

Funding at Negative Real Interest Rates

The break-even rate of the inflation index reflects current market sentiment. It’s a de facto “point spread.” With markets expecting inflation to approach three percent over the next three to five years, it’s helpful to compare those projections to your corresponding levels of funding. As a proxy, dividend-adjusted wholesale advance funding with respective three and five-year maturities is 1.76% and 1.96% as of this writing. Despite recent rising rates, funding levels remain priced by a significant margin through inflation, meaning that banks may effectively borrow at negative expected real interest rates.

Sustained inflation last appeared on the scene in the early 1980s. Fewer and fewer balance sheet managers have lived through such conditions, other than those running desktop models of “what-if” scenarios. Even fewer remember their business school textbooks on inflation-adjusted accounting from the 1970s! As your asset-liability committee (ALCO) continues to measure and monitor the prospective impact of inflation on your bank’s net interest income and market value of equity, remember to check the market’s break-even inflation rate regularly. It may be an opportune time to lock in funding while levels are still at expected negative real yields!

John Biestman is vice president and senior relationship manager at the Federal Home Loan Bank of Des Moines. He joined the Federal Home Loan Bank System in 2003 after starting with FHLB Seattle and transitioned over to FHLB Des Moines after the merger in 2015. John works primarily with regional bank members in the western region and is a highly regarded financial strategist, speaker, and writer and the host of the FHLB Des Moines Insider and On the Record podcasts.

The 5-Year Breakeven Inflation Rate from February 2017 through February 2022. *Courtesy Federal Reserve Bank of St. Louis Economic Research, February 16, 2022.*

Dodd-Frank Act's DEI Provisions: The Next Challenge for Community Banks

By Jeff Thompson, VP Managing Consultant, Compliance Services, UBB

Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 required federal regulatory agencies overseeing the financial sector to establish joint standards for assessing the diversity policies and practices of the institutions they regulate. The Standards were released in 2015, and each of the agencies reports annually to Congress regarding their progress.

Over the past several years, this particular section of the Dodd-Frank Act has gone mainly unnoticed. However, with the new administration and the current mood in our culture, the agencies are once again focused on diversity, equity, and inclusion. This makes it an excellent time to refresh everyone's memory on what Section 342 is all about and provide some steps that banks of all sizes can take to prepare for their next examination, where this may be a focus for your regulators.

Section 342 required all federal financial regulatory agencies to establish an Officer of Minority and Women Inclusion (OMWI). The OMWI at each agency is responsible for all matters relating to diversity in management, employment, and business activities. Also required by Section 342, each OMWI must develop standards for assessing the diversity policies and practices of institutions regulated by that agency.

The Standards adopted by the prudential regulators and the CFPB in 2015 include the following five major sections:

1. Organization Commitment to Diversity and Inclusion
2. Workforce Profile and Employment Practices
3. Procurement and Business Practices – Supplier Diversity
4. Practices to Promote Transparency of Organizational Diversity and Inclusion
5. Entities' Self-Assessment

Section 1 is fairly self-explanatory. If an organization is committed to diversity, equity, and inclusion, it must come from the top. Boards of directors and senior management teams are expected to demonstrate their commitment via policies, hiring practices, training, and regular reporting of the success of the programs implemented.

Section 2 speaks directly to how an organization hires and fosters a diverse workforce. Policies and procedures, attention to equal opportunity practices, outreach to women and minority organizations, outreach to educational institutions, participation in events that promote inclusion, quantitative and qualitative measurements, and holding management at all levels accountable for diversity and inclusion efforts are just a few of the ways the Standards promote diversity in the workforce.

Section 3 is a bit trickier because this is mainly about things outside your organization. The Standards encourage the use of minority and women-owned businesses as suppliers or third-party contractors. They also suggest that institutions should set goals in this regard and measure how those goals are being met.

Section 4 is all about telling the world about your diversity, equity, and inclusion policies and practices. Utilizing your website and other communications, institutions are expected to promote their diversity programs including the publication of your strategic plan, any policies regarding your commitment to diversity, and reporting on your progress.

Section 5 may be the most critical section of the Standards, particularly for community banks outside urban centers. Each institution is tasked with developing a self-assessment that sets goals, periodically measures those goals, and then revisits the goals based upon the success or failure of its diversity programs. The reason this is so important is that all five of the Standard sections begin with, "In a manner reflective of the individual entity's size and other characteristics." Your self-assessment is the roadmap to your "size and other characteristics" that drives your ability to implement diversity, equity, and inclusion policies and practices.

This self-assessment can help ensure that you are staying on track with the spirit of diversity and inclusion programs but only within the context of the reality in which you operate. For instance, a community bank near an urban center is more likely to have a significant minority population from which to draw talent, whereas many rural community banks do not. Nothing in these standards would require a rural community bank to "import" talent into the area that does not necessarily exist. Conversely, the bank a little closer to an urban center should have a deeper understanding of the demographic makeup of its market and work toward a workforce that reflects those demographics. The results will vary from institution to institution, but you must create your own reality through self-assessment.

In conclusion, if you have not already begun a process of determining your diversity, equity, and inclusion policies and practices, now is an excellent time to start. We recommend beginning with Section 5, your own self-assessment, and then creating policies, practices, measurements, and controls that reflect your size and other characteristics.

Jeff Thompson is a vice president managing consultant for UBB Compliance Services. His career began in 1987 as a Bank Examiner with the Office of the Comptroller of the Currency. He has also served as credit administrator and compliance officer at a small community bank and managed the compliance consulting arm of a regional CPA firm. Before joining UBB, he formed and spearheaded Community Bank Solutions, LLC, specializing in compliance and loan review services for community banks.

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