Nov/Dec 2023

# Kentucky Banker

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**WHO WE ARE:** The KBA is a nonprofit trade association that has been providing legislative, legal, compliance and educational services to its member institutions since 1891. KBA's directors and staff work together with its members to make the financial services industry a more effective and successful place to work. The strength of the KBA is bankers unifying as an industry to speak as one voice.

**WHAT WE DO:** The purpose of the Kentucky Bankers Association is to provide effective advocacy for the financial services industry both in Kentucky and on a national level; to serve as a reliable and responsive source of information and education about areas of interest to the industry; and to provide a catalyst and forum for collective industry action. The KBA does this in 4 ways:

1. Government relations & industry advocacy
2. Information interchange
3. Education
4. Products and services

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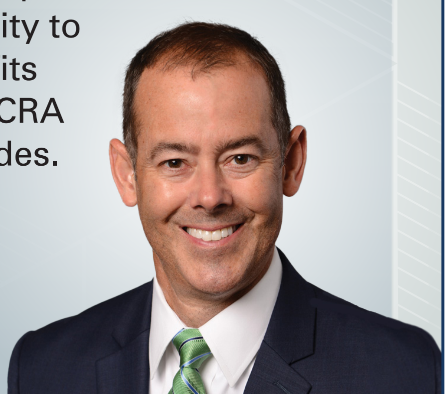

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# *Introducing...* Mark Strother

**Incoming 2024 Chairman, KBA | President & CEO, Commercial Bank of Grayson**

Our bank's story is similar to many of your banks: a family-owned bank established to make an impact on the communities we serve. For Commercial Bank of Grayson, we've been making a difference in the lives of Carter Countians since the year KBA was created, 1891. I am the fifth generation to lead our bank and that responsibility is constant. Not only are we sought out for assistance during our working day, but after hours while volunteering at the charity event, shopping in the grocery store, and attending the ball game and, sometimes, at Church. I returned home to banking so my efforts could be used to make a difference.

I've never worked at another employer. My career began with weed eating and lawn care. I moved on to bookkeeping and our teller line through summers while in high school and college. Two weeks after graduation, my first day consisted of taking Christmas decorations from the roof. I've worked every job in the bank, except proof, during my 31 years of full-time employment. I had the pleasure of working with my grandfather and father. My "tot" lived to be 106, in good health, and blessed our family and my children with as solid an example as any man. My dad is incredibly disciplined, a trait I could better imitate. He called my grandfather the rock of the family, but he has done a terrific job of taking over that role as well. We have proven over these many years that a father/son team can work together well.

Family is often a term we use when discussing the bank. Over the years, fine bankers such as Fred, Phyllis, and Linda have retired and been replaced in their leadership roles by today's excellent leaders in Cynthia, Hilma, Jonathon, Alisa, and Sherry. We celebrate the best times in life together and mourn our family's losses. All the while, we strive to help great clients, many of whom are not the first generation to do business with Commercial Bank.

I am convinced Grayson and Olive Hill benefit from a bank whose mission is to take care of our neighbors. Our efforts impact every important time in our clients' lives. From their childhood savings account to the opening of an estate account for a passing loved one, we provide a personal touch as we help our friends achieve their goals. Each banker who is part of the KBA also touches the lives of those in your communities. We use the funds entrusted to us to take risks on every car loan, commercial loan, and mortgage we close. We manage those risks that vary with every change in the economy, becoming an even stronger challenge when downturns are seen. With interest rate changes not seen in many years, we work through the challenges of finding the liquidity to meet those lending needs. And yet, with hard work and determination, we manage to serve our clients, donate to charities that help our communities meet the many challenges, and provide a profit for our stockholders.

The Kentucky Bankers Association is dedicated to helping each of us make those differences. The products and services offered by the KBA and its approved vendors help make our jobs easier. The KBA's primary effort is its advocacy for our industry in Frankfort and in

Washington. KBA promotes regulation and legislative change that improve our capacity. Likewise, KBA spends significant energy keeping others from making our jobs more difficult. These regulatory hurdles are unprecedented, at least in my 31 years of banking. As great a job as Ballard, John, and Tim do promoting the industry, it takes our voices to really show how good ideas will benefit our locales and how perhaps well intended, but horrible ideas will kill growth in our local economies. Every year, our individual efforts to speak out for the business we care about become ever more important. I encourage you to stay connected to your local legislators during the 60-day session about to begin in Frankfort, and with our efforts in DC as another Presidential Election year arrives.

I look forward to working with each of you this year as we strive to make the industry we love even greater.

# HOPE in the NEWS!



**It's been a big month for HOPE of the Midwest! Billie Wade and his team have made the news with their ongoing projects in both Lexington and Louisville! For more info on how Hope is building a better future, visit hopeofthemidwest.com!**

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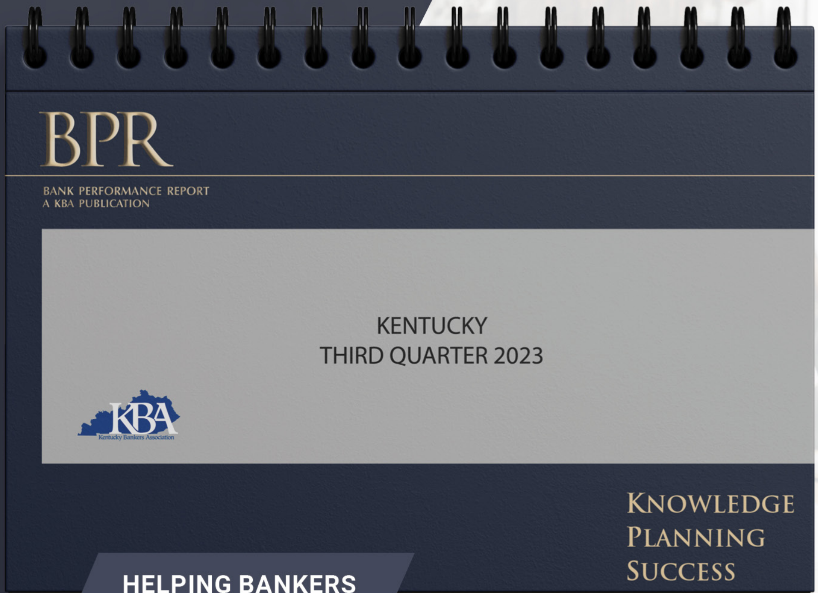


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# 2023 Recap

*by* **Ballard Cassady,** *KBA President*

As we enter into a new year, I find myself reflecting on 2023 with mixed emotions, reminiscent of Charles Dickens' famous line, "It was the best of times, it was the worst of times." This year has been marked by challenges, including record inflation, constant pressure from mindless D.C. bureaucrats, and most heartbreakingly, the loss of my dear friend and colleague, Debra K. Stamper. Undoubtedly, 2023 has been a tough year.

Yet, despite these hardships, the optimist in me can't help but consider the best of times. Both professionally and personally, I've had the pleasure of being pleasantly surprised by all the gifts that have been afforded to me this year. We've had a few new babies in our orbit, new successes in our business, and we've forged real relationships with friends and colleagues that I believe will last a lifetime. In the face of unthinkable loss, I hold on to these things that give us hope now more than ever.

If I may brag a little on our team, you might get a better idea of where I'm coming from. For starters, former Education Director Timothy Schenk has flawlessly transitioned into the role of General Counsel. I'm so eager to see his enthusiasm continue to energize our entire team here at the KBA office as we move into 2024. We have seen the KBA go national, something I never could have predicted. Services like our Bank Performance Report and Fraud Academy are now known and loved by bankers across the country.

Speaking of academies, one of the biggest complaints I get every year is, "We don't have a succession plan." This has prompted us to start a new project in 2024 that we expect great things out of. It is featured on the cover of this month's magazine and aptly called the KBA Succession Academy. Tailored for executive bankers and their successors, this one-of-a-kind program is designed to carefully guide you through the strategic process of succession planning.

I can already hear some of you saying, "I'm not ready for something like that NOW." I get it. Staring retirement in the face and letting go of something you've spent your whole life building isn't easy. In fact, it might very well be the most challenging thing you've ever had to do.

But, look around you. Community banks across the country are struggling mightily to find successors that can hit the ground running and continue the great legacy of their banks. It's no longer a foregone conclusion in a family bank that your children will want to take over. It's a tough business, one with immense challenges and a fair share of headaches, and it takes a special kind of person to do the job. Where will the next generation come from? We must start identifying high value employees early and often if we want to secure the future of our industry. Succession Academy is a highly interactive, carefully curated learning experience that will help you do just that.

Leading the academy is the renowned leadership supergroup, Van Hooser Associates. Fronted by Founder & Chair Philip Van Hooser and his daughter-in-law, President & CEO, Alyson Van Hooser, the Van Hoosers know a thing or two about succession; they've lived it themselves. This leadership development training was put to the ultimate test as Alyson herself successfully transitioned into the role as President & CEO at Van Hooser Leadership.

Together, these two widely respected masterminds are bringing their expertise to this often-requested KBA Education program, and we are thrilled to introduce it to our bankers. Take a look at Jessie Southworth's article later in this issue for more info on how you can take advantage of this expert-driven experience. The legacy of your bank, your community and the people who work for you might just depend on it.

In closing, I wish each of you a very happy new year. I look forward to seeing you all once again as we begin our cycle of events. From our day in Frankfort to our KBA group meetings, Spring Conference, D.C. trip and more, I'm already getting excited for all the great things we have on the horizon for Kentucky banks.

**We are blessed to have some of the best bankers in America, the numbers bear it out and we don't take our blessings lightly. You can count on the KBA to stay on top of its game!**

*by* **Jessie Southworth,**
*KBA Director of Education*

# Passing The Torch


**Over the past five years, the banking industry has seen a number of changes. Five years ago, 2019, the yield curve inverted and many predicted a recession was around the corner. While a recession did occur and unemployment skyrocketed in the short term, no one anticipated it to be caused by a global pandemic. Since the pandemic, employment trends and characteristics have changed, and now the labor market is extremely competitive.**

The financial service industry has seen significant employee turnover, a concern affecting both bankers and regulators alike. Finding good replacements for employees that have left is challenging for the industry and when institutions find a good employee, they have a hard time retaining them. This issue is not isolated to a particular agency, bank size, or geographical area, although smaller institutions in rural areas often experience a harder time attracting talent to those areas, making the need to empower and promote internal candidates even more important.

Crowe, a public accounting, consulting, and technology firm, completes an annual bank compensation and benefits survey. The survey is comprised of approximately 400 financial institutions of varying asset sizes. The 2023 survey results reflect what I have seen across the Commonwealth, and it points to a looming problem that the industry is facing. Executive management in the banking industry is not prepared to pass the reigns to the next generation, and that problem is being exasperated by the tight labor market.

**Lack of growth opportunities is a leading reason why employees are searching and ultimately leaving their current jobs.**

Only 20 percent of institutions in this study felt prepared in succession of leadership from the current management team to the next generation. Even more concerning is that 52 percent of executive management in this study are 56 years of age or older. These findings point to an issue in the industry; most financial institutions are not prepared to pass the torch of succession from one generation to the next even though half of executive management is approaching or at retirement age.

The Conference of Bank Supervisors issues a quarterly Community Bank Sentiment index and found results similar to the Crowe study. Apart from inflation and government regulation, the cost and availability of labor are community bankers' third largest concern. To put it in perspective, the sentiment index indicated that the employee issue is a greater concern to community bankers than cyberattacks.

Lack of growth opportunities is a leading reason why employees are searching and ultimately leaving their current jobs. So instead of community banks losing their best talent for growth opportunities at other institutions, management must figure out how to successfully empower their existing talent and show them they have a future at that institution. If bankers can show employees there is advancement and a future at their institution, it will not only help community banks retain their best employees, but it also fixes the long-standing issue of succession.

Empowering your existing work force is no small challenge, especially in the current environment. To aid bankers in addressing this issue, the Kentucky Bankers Association is partnering with Van Hooser Leadership, a nationally acclaimed company with over forty years of leadership experience, to develop our first of its kind Succession Academy for community bankers. The Van Hooser Leadership team is passionate and extremely experienced in addressing the very issue that the banking industry is facing right now, which is how to develop the next generation of executive management.

With a tight labor market and labor force that moves easily and frequently to the next opportunity, management can no longer just plan for succession, they must empower the successors to lead and provide both current management and potential successors the skills needed to one day successfully pass the reigns to the next generation.

If done well, succession planning enables the potential successor to feel invested in the institution, making them more likely to stay. Planning for the future will not only help retain the best talent but ensures the long-term success of the institution, well after the current executives' time at the institution.


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# Succession Academy

Kentucky Bankers Association

## ARE YOU READY **TO PASS THE TORCH?**

Presented by the Kentucky Bankers Association in collaboration with globally acclaimed business mentors, Phillip Van Hooser and Alyson Van Hooser! Dive into an unparalleled leadership journey with our interactive, on-site academy, carefully curated for banking executives poised for succession.

***Why Succession Academy?***

**Expert-Led Mentorship:** With decades of wisdom from Phillip and Alyson Van Hooser, navigate the intricacies of leadership transition with confidence.

**Tailored Strategies:** Our curriculum isn't one-size-fits-all. We customize the learning to align with your unique career trajectory and organizational culture.

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# ANDY BARR BRINGS THE HEAT

*by* **Timothy Schenk,** *General Counsel*

IT WAS A CHILLY EVENING IN NOVEMBER WALKING FROM CAPITOL HILL TO THE HOTEL TO PREPARE FOR THE HOUSE FINANCIAL SERVICES COMMITTEE'S HEARING THE NEXT DAY WITH DIRECTOR CHOPRA. I HAD JUST MET WITH VARIOUS MEMBERS OF KENTUCKY'S HOUSE DELEGATION, INCLUDING OUR BANKING CHAMPION, ANDY BARR (R-KY), AND THE MESSAGE WAS CLEAR; THEY DID NOT APPROVE OF 1071 AND UNDERSTOOD THE NEGATIVE IMPACT IT HAD ON BANKS AND OUR INDUSTRY.

The hearing was critical as it came on the eve of the House of Representatives voting on Representative Roger Williams' (R-Tx) Resolution disapproving of 1071. We were finally going to see how Congress felt about 1071 and whether Director Chopra was meeting Congress' intent in rulemaking with 1071.

The United States Senate had already approved Senator Robert Kennedy's Resolution disapproving 1071 in October. Now it was time for the House of Representatives to take their stand. As members of the committee, Congressional staff, Director Chopra and others began to fill the hearing room, it was clear that Director Chopra lacked Congressional support.

House Financial Services Committee Chairman Patrick McHenry (R-N.C.) opened the hearing with, "Good morning. The public's trust in our financial regulators is shaken...The ongoing barrage of press releases from the CFPB is misleading at best. They too often paint with a broad brush to vilify sectors of the financial services industry and even the U.S. Financial System as a whole rather than targeting independent bad actors... The 1071 rule goes well beyond the CFPB's statutory authority to require the collection and reporting of onerous amounts of information in an attempt to facilitate the naming and shaming of lenders whose business activities are unfavorable to progressive activists." The disapproval of 1071 continued.

Representative Frank Lucas (R-Ok) noted, "The Paperwork Reduction Act requires agencies to determine the total paperwork burden by hours of major rulemaking. This measures the time required to generate and provide the requested information of the rule. The CFPB estimated the total annual burden hours imposed by this final rule to be 8,302,000. That is the equivalent of 947 years... Eight million hours is a lot of time...Is there a volume of recording that exceeds the costs?"

"Director Chopra, what is happening is regulation is running downhill and choking small institutions," said Representative Blaine Luetkemeyer (R-Mo).

While numerous members of Congress took issue with 1071 and various regulatory concerns, Kentucky Congressman Andy Barr directly addressed your concerns head on with Director Chopra:

**Representative Barr:** 1071, Director Chopra, if a small business begins a loan application process, can a lender under your 1071 proposal disclose to them that they are required to collect information under the direction of the Federal Government?

**Director Chopra:** I need to look at the specific regulation but my understanding is that even the model form makes very clear that this is a government requirement.

**Representative Barr:** Ok. Does a small business loan applicant have the right to refuse to provide this data under your proposal?

**Director Chopra:** Yes, it's not actually in the proposal, it's in the statute.

**Representative Barr:** Great. I agree it is in the statute and so under 1071 and under the statute small business are not legally obligated to provide data in connection with any application of credit, but do you believe a small business owner should know why an institution, before any underwriting occurs, is collecting demographic information about them?

**Director Chopra:** If I understand your question, I think yes, that's right, and the Home Mortgage Disclosure Act I believe there is also a similar type framework, I need to check.

**Representative Barr:** Do you recognize that if a small business owner fails to understand why the data is being collected, it could lead to confusion and misunderstanding and potential liability for financial institutions? In other words, if they are asked to disclose their race, or their ethnicity or their LGBT status, before underwriting occurs, and that loan application is denied, that could lead to confusion to the basis for the denial of the application, you understand that?

**Director Chopra:** I understand that.

**Representative Barr:** And based on your response, I think you would agree with me that providing a simple document to consumers or small business owners explaining all of this would help clear up confusion in the small business lending space.

Chairman, I am asking for unanimous consent to submit for the record a potential questionnaire crafted by the Kentucky Bankers Association that would do just that, without objection.

Director Chopra, my constituents who provide small business loans in my district in Kentucky tell me that your 1071 rule will force them to exit small business lending and will therefore decrease availability and increase the cost of credit for small

mainstream borrowers. I believe this questionnaire could help clarify the need for, or the lack of any need for, this data collection effort and reduce incentives for firms to exit the market because of fear of legal repercussions.

Final question, Director Chopra…

**Director Chopra:** And by the way, I'm very open to that…

**Representative Barr:** And I'll share that with you, and appreciate your feedback.

---

**On what was an otherwise cold day, Representative Barr "brought the heat" by delivering your concerns to the committee floor and shared how the oppressive and illegal 1071 final rule would negatively impact your bank and our industry.**

Your form made it into the Congressional record in a key component of our litigation against the CFPB. Congress has heard your voices, taken note, and you are now "on the record" in contesting 1071. A major milestone for you and our industry! As the hearing came to close and other Congressional members questioned Director Chopra on his agency's actions, it was clear that the House of Representatives, like the Senate, disapproved of the CFPB's 1071 final rule.

On December 1, 2023, the House of Representatives passed S.J. Res 32 with bipartisan vote 221-202. However, despite Congressional approval, President Biden put a chill on Congressional efforts to rescind 1071 by vetoing the Resolution.

However, while the weather changes and the CFPB continues its fight against our banks, what does not change is your resolve to continue this battle against the CFPB and its "unfair" and "abusive" practices. We must continue to urge our members of Congress to challenge Director Chopra on his rulemaking as we force him to answer for actions in court. It takes a concerted and united effort to win these challenges, but after a cold day in November, I am confident that we will continue to push forward with our compass pointing north and remain steadfast in all conditions in leading our industry against 1071!

Author: James Ayers
Assistant Vice President
Regional Retail Manager
Kentucky Market
First State Bank

# *REVIEW:* LEADING CHANGE

Regarded by many as the authority on leadership and change, John P. Kotter is a New York Times best-selling author, award winning business and management thought leader, business entrepreneur, inspirational speaker and Harvard Professor.

As bankers, it's safe to say that all of us are quite accustomed to managing change. Change related to the regulatory environment as well as customer and employee expectations seems to occur constantly. Managing this change requires a certain approach. But what about leading change? This requires an entirely different approach. Instead of managing change brought on by external forces or shifting perspectives, what if you find yourself on the forefront of a change effort that either you have developed yourself or have been placed in charge of implementing through your personal leadership skills? To effectively lead a change effort, one would be well served to begin by reading the appropriately titled "Leading Change" by Harvard Professor John Kotter.

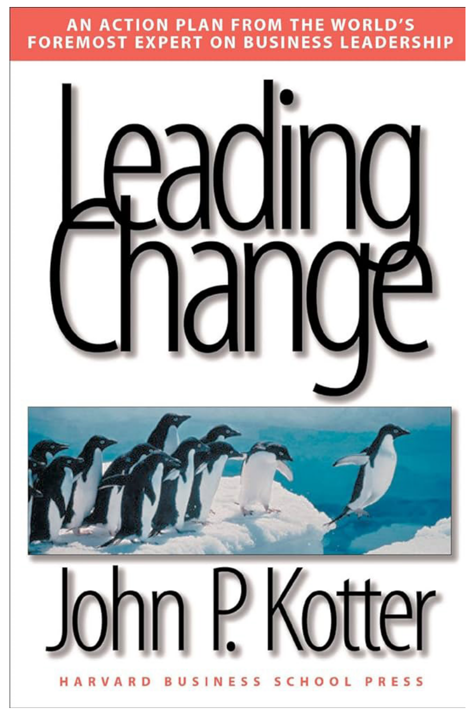
Kotter has spent decades researching and working with companies spanning the globe as they undergo efforts to create lasting change. He begins the book by discussing how and why these change efforts often fail, providing a list of 8 common errors and the consequences that follow these errors. Early on, Kotter discusses the differences in management and leadership. This establishes the appropriate shift in mindset that must take place if one is to lead change and not just manage through change. Moving on from explaining why change initiatives fail, Kotter provides an eight-stage process to creating successful major change:

- Establish a Sense of Urgency
- Creating a Guiding Coalition
- Developing a Vision and a Strategy
- Communicating the Change Vision
- Empowering Broad-Based Action
- Generating Short-Term Wins
- Consolidating Gains and Producing More Change
- Anchoring New Approaches in the Culture

In the succeeding chapters, Kotter gives numerous examples to demonstrate the importance of this process.

I discovered this book while struggling with one of my first major change efforts. Once I began applying the processes and principles outlined (specifically communicating the vision), the effort quickly started to pay off. My most recent experience leading major change involved changing culture, an arduous task for sure. From the beginning of that effort, I utilized Kotter's framework. While no change effort will ever be free of speedbumps, I experienced a very successful outcome (the chapter on anchoring new approaches into the culture was key).

Kotter's book has allowed me to become a better, more effective leader. As you face change efforts that appear daunting, reading this book and applying its concepts will do the same for you.




**Title: Leading Change**
**Author: John P. Kotter**
**Publisher: Harvard Business School Press**

# Onward & Upward

Have a promotion or branch news you want to see featured? Email us at mattsimpson@kybanks.com


FNB Bank, Inc., charitable contributions to The Salvation Army of Paducah.

Over a five week period, members of the team at **The Murray Bank** went into classrooms throughout the Calloway School District and provided students with real-world lessons in financial literacy, career readiness and entrepreneurship. We celebrate Murray Bank's dedication to raising up the next generation of bankers!

**First Kentucky Bank President Will Hayden** announces that **Doug Smith** has been promoted to Market Executive for the Pennyrile Region. Smith has 27 years of combined banking experience with his most recent role as Vice President, Commercial Lending at First Kentucky. As the Pennyrile Region Market Executive, he will primarily be responsible for business development and commercial lending in Muhlenberg, Ohio, and Daviess counties.

**Mark A. Gooch**, **Vice Chairman, President and CEO of Community Trust Bancorp, Inc.,** is pleased to announce **Allen Martin** as Assistant Vice President, Branch Manager of the Danville Main Office of Community Trust Bank, Inc. Congrats on your success, Allen!

**Community Trust Bank, Inc.** was recently honored for the 15th consecutive year with the "Gold Lender Award" from the United States Small Business Administration (SBA) as Kentucky's top volume SBA 7a Community Bank lender in federal fiscal year 2022–2023. The award was presented November 30, 2023 at the SBA Lender's Conference in Louisville.

During the month of December, **FNB Bank** made a $1,000 Christmas donation to the Salvation Army of Paducah to benefit the Angel Tree Program. They also made donations of $1,000 to both the Community Christmas Connection Toy Drive and the Mayfield-Graves County Needline/Food Pantry. We commend FNB Bank on their ongoing charitable contributions when families need it most!

**Cumberland Valley National Bank & Trust (CVNB)** is pleased to announce the appointment of **Andy Mayer** as Senior Vice President and Louisville Market President. Congrats to CVNB and Andy Mayer!

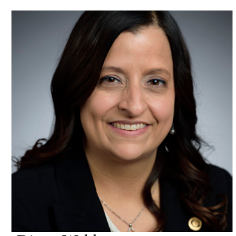
**CVNB** is also pleased to announce the appointment of **Davin Roberts** as Senior Vice President and Somerset Market President. Davin's journey with CVNB began in 2016, and over the years, he has consistently demonstrated exceptional dedication, commitment to excellence, and a passion for community leadership.

**Mark A. Gooch Vice Chairman, President and CEO of Community Trust Bancorp, Inc.,** is pleased to announce that **Mark Smith** has been promoted to the position of Executive Vice President, Chief Credit Officer and **Jeremy Clark** has been promoted to the position of Senior Vice President, Loan Review Manager. Both promotions are effective January 1, 2024. **James J. Gartner** will be retiring from Community Trust Bank on December 31, 2023 as Executive Vice President, Chief Credit Officer.

**Central Bank Chairman, President, and CEO Luther Deaton, Jr.** would like to make the following announcements:

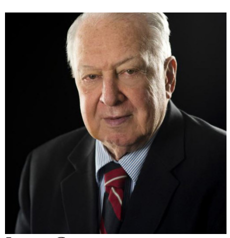
**Kerry Bickett** joins Central Bank as retail banking officer II.
The promotion of **Joshua Bly** to assistant vice president, image processing manager.
The promotion of **Allison Carter** to vice president, cash management officer I.
The promotion of **Jenny Foley** to vice president, personal trust officer II.
The promotion of **Danny C. Noland** to senior vice president, auditing manager.
The promotion of **Ben Pelfrey** to retail banking officer I.
The promotion of **Matthew Ratliff** to senior vice president, retail sales executive.
The promotion of **Ashley Rodgers** to vice president, cash management officer I.
The promotion of **Diana Webb** to assistant vice president, deposit services manager.


Ashley Rodgers

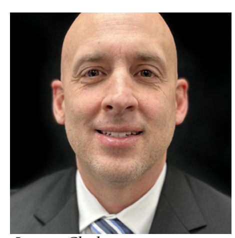

Diana Webb


Allen Martin


Andy Mayer


James Gartner

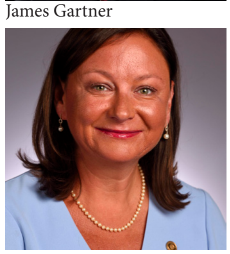

Mark Smith


Jeremy Clark

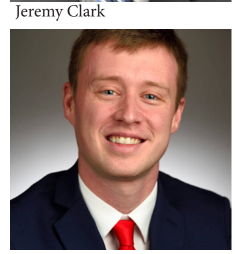

Kerry Bickett

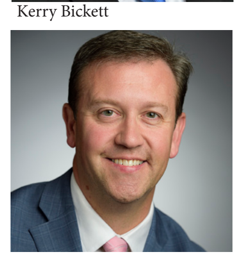

Joshua Bly


Allison Carter


Jenny Foley


Danny Noland


Ben Pelfrey


Matt Ratliff

# IN THE SPOTLIGHT

## SHINING A LIGHT ON NEW KBA ASSOCIATE MEMBERS!

**Apiture, Wilmington, NC**

Apiture provides robust consumer and business banking platforms, data intelligence, and account opening solutions to financial institutions in Kentucky and across the U.S. With more than 40 core integrations available and partnerships with more than 200 fintechs, they provide their clients with choice and flexibility to create a digital banking experience best suited to their unique user base.
Contact: Matt LaBenz – matt.labenz@apiture.com – (609) 969-2499

**Integris, Cranbury Township, NJ**

Committed to providing best-in-class service, Integris specializes in optimizing technology for financial institutions by designing unique business-aligned IT strategies. With over 30 years of experience in the financial industry, their services are designed to increase your financial institution's profitability and efficiency while ensuring the security of your bank.
Contact: Cal Roberson, Director of Strategic Partnerships – cal.roberson@fid.integrisit.com – (325) 223-6114

**Visa Inc., Foster City, CA**

Visa Inc., is a world leader in digital payments, facilitating transactions between consumers, merchants, financial institutions and government entities across more than 200 countries and territories. Their mission is to connect the world through the most innovative, convenient, reliable and secure payments network, enabling individuals, businesses and economies to thrive. They believe that economies that include everyone everywhere, uplift everyone everywhere and see access as foundational to the future of money movement.
Contact: William B. Dickerson, Business Development Manager – wdickers@visa.com – (614) 784-5164

KBA
Kentucky Bankers Association

Associate Members serve an important and supportive role in the KBA and to the Kentucky banking industry by providing quality products and services. We look forward to having these new associate members involved in KBA and supporting the member banks!

To learn how you can be a KBA Associate Member, contact Selina Parrish at sparrish@kybanks.com

# Investment Portfolio Tactics to Enhance Earnings Growth

SouthState
DuncanWilliams

**Leila Coggins**
Senior Vice President,
Research and Strategy,
SouthState | Duncan Williams

As we look to 2024, we anticipate GDP to slow to the 1% range, plus or minus a ½%. This economic slowing, along with continued improvement in inflation, will allow the Fed to begin cutting rates in June, and throughout the second half of 2024 with the funds rate finishing the year at 4.75%. The Treasury market will stay ahead of the Fed, leading it lower with the 10yr yield ending 2024 at 3.50%.

Creating sustainable earnings while limiting margin compression will be paramount as we enter 2024. Executives and portfolio managers will be challenged by an ever-changing interest rate environment and slowing economic growth, testing their ability to generate income and manage costs. Elevated rates will continue to pressure funding costs higher, and there is a greater likelihood deposit costs struggle to fall even if interest rates drop.

It is likely NIMs have peaked for this cycle and the landscape is doubtful to change materially over the next few quarters, meaning the grind to preserve earnings will continue. Now is a prudent time for institutions to assess their 2024 outlook and be mindful of strategies available to help reach revenue and earnings goals.

While the inverted yield curve has and is presenting several challenges in the depository landscape, there are opportunities to generate additional carry without taking on excessive risk. Three strategic plays within the investment portfolio for improving interest income are loss recoup strategies, earning enhancement strategies, and prefunding strategies.

Through calculated portfolio monitoring, managers may find opportunities to take losses and reinvest with a short earn back period. By pruning these positions now, you are able to lock in yields just off their cycle highs and better position the portfolio. Remember when taking a loss today you are effectively pulling forward future loss of interest income in the lower yielding holdings, relieving the drag they place on earnings. Liquidity generated from recognizing losses in the securities portfolio can be used to:

- Alleviate higher funding cost sources and de-lever the balance sheet
- Participate in locking in higher yielding securities
- Support loan demand
- Rebuild cash reserves

Those with sufficient capital are looking towards earning enhancement, i.e. leverage, strategies not only to improve profits but adjust the existing interest rate risk of their balance sheet. Other notable themes for why a bank might explore a leverage strategy:

- Low/ Declining Loan Demand
- Mediocre Earnings Performance
- Limited Asset Growth Prospects

Prefunding strategies allow those institutions finding themselves in a more constrained liquidity position the ability to capitalize on the higher rate environment while reducing reinvestment risk near term. Through evaluating the portfolio's short-term principal roll-off over the next 6-12months, there could be opportunities to deploy excess cash to increase interest income earned instead of remaining in cash. The cash spent will be replenished in short order as the portfolio cashflows roll off and the investor will have locked in higher yield. Adding securities at these higher yield level makes way for future gains should a recession hit, and loan losses rise, potentially offsetting future loan losses or creating persistent capital.

The fixed investment yield landscape remains ripe with opportunity. Locking in yields for longer, with the potential for capital appreciation should yields fall, has historically been the play between the last central bank rate hike and the first central bank rate cut.

A two-pronged approach remains a solid strategy through this environment. The first prong is a front-end focus targeting short duration, current reset floaters and structures supporting heavy front end principal roll-off such as Hybrid ARMs and full coupon, front end SEQ CMOs. These investments will capture the immediate rise in rates and hedge the risk front end yields remain elevated near term should inflation prove stickier (stagflation) leading the Fed to hold fed funds rate higher for longer. The second prong takes focus on mid-to longer duration with off coupon, i.e. 4.0%-5.5% cpn, 20 & 30yr MBS pools, 5% cpn taxfree municipals and positively convex bullet structures like FNMA DUS offering greater call protection to lock in yield for longer and benefit the most from curve roll and price appreciation as rates fall.

Place a continued focus on the overall portfolio cashflow while layering in investments that restore a portion of the roll-off that may have extended in the past year. Functional cashflow ladders allow investors to maximize returns for a longer period, generating more income overall.

Remember the importance of staying invested. TIME IN the market versus TIMING the market. The Fed is approaching the end of its hiking cycle, increasing US recession probabilities if forced to hike more or hold higher for longer. Holding too much cash or maintaining a large portfolio allocation to low yielding securities as rates unwind could become a drag on earnings at a time when margin pressures remain top of mind.

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# POTENTIAL PITFALLS IN GARNISHMENT PRACTICE

mpmfirm.com

Ben Crittenden

Non-wage garnishment is a useful tool for creditors to enforce judgments, but banks receiving garnishment orders face potential exposure to claims from their customers if those orders are not handled correctly. This article addresses two potentially thorny scenarios and highlights the importance of banks employing efficient procedures and exercising attention to detail.

First, it is critical for a bank to implement procedures to efficiently notify a customer when it receives a garnishment order that applies to the customer's account with the bank. The Order of Garnishment form utilized by judgment creditors in Kentucky provides that a judgment creditor may request a hearing with the Court to challenge whether account funds are subject to garnishment. However, the form specifies that such a challenge should be brought within 10 days of the bank receiving the garnishment order, suggesting that time is of the essence for the bank to notify its customer so that the customer will have ample time to respond.

The 10-day requirement is not set forth in Kentucky's garnishment statute, KRS 425.501, or the relevant civil rule, CR 69.02, which simply require a bank to notify its customer of the garnishment. Also, Kentucky courts have consistently recognized that the 10-day language included in the Order of Garnishment form is only for the convenience of the court that entered the judgment, and that it should not be construed strictly to deprive a judgment debtor of the opportunity to contest a garnishment.

However, a bank could face potential liability if it neglects to promptly notify a customer of a garnishment order and, as a result of the delay, the customer is ultimately precluded from challenging the garnishment. In our practice, a bank client recently defended a lawsuit brought by a customer when it provided the customer with notice of a garnishment order 14 days after receipt. While the bank ultimately obtained dismissal of the lawsuit, it still incurred costs and fees in the defense.

To avoid unnecessary legal expenses, we recommend that banks promptly notify customers upon the receipt of garnishment orders—certainly well within 10 days.

Additionally, a bank should take steps to ensure that a customer's account is subject to a garnishment order. Challenges arise in scenarios where several related businesses have accounts with a bank, and it is unclear which accounts are subject to a garnishment order.

A recent scenario arose with an individual business owner who opened numerous accounts with a bank in the name of his myriad corporate entities, all of which were solely owned. A judgment creditor argued that the various entities were alter egos and all subject to a garnishment order issued to the bank. The trial court agreed, but the customer still objected to the bank complying with the garnishment order, and ultimately filed a frivolous lawsuit against the bank.

A bank will often be caught between a rock and a hard place when questions arise concerning whether a customer account is subject to garnishment—the judgment creditor will want the bank to surrender the funds in the account while the customer will oppose such action. In such circumstances, a bank should consult with legal counsel to avoid facing claims from either the creditor or the customer.

A bank may be protected from the threat of liability by seeking an order from the court that entered the judgment to simply pay the funds at issue into court in full satisfaction of the bank's obligations to all the parties. This approach allows the judgment creditor and the customer to litigate whether the funds are subject to garnishment, and it keeps the bank out of the fray in the process.

*Ben Crittenden is an attorney at Morgan Pottinger McGarvey. Contact him at rbc@mpmfirm.com with questions about this subject or other bank litigation issues.*

MORGAN POTTINGER MCGARVEY

Morgan Pottinger McGarvey is a leading banking and finance law firm representing financial institutions, businesses and individual clients throughout Kentucky and Indiana.

LEXINGTON LOUISVILLE NEW ALBANY

# Bad HMDA Data Costs Bank $12 Million

Kentucky Bankers Association ENDORSED

CONTRACTS The Upside of Risk

**Justin Smith,**
Senior Vice President of Lending Compliance

Hundreds of Bank of America (BofA) loan officers failed to gather required mortgage applicant demographic information, falsely reporting that applicants chose not to provide it. Now the Consumer Financial Protection Bureau (CFPB) is fining the bank $12 million for violating the Home Mortgage Disclosure Act (HMDA).

This misreporting happened despite the bank's awareness – as early as 2013 – that its rate of "information-not-provided" was three to four times higher than peer institutions, the CFPB says.

In 2013, BofA launched a monitoring program to address this issue, successfully reducing its "information-not-provided" rate from 13% to 6%. However, this rate was still double the average rate of 3% at other large banks. The situation deteriorated in 2016 when the bank abruptly stopped its monthly monitoring of uncollected HMDA data.

As a result, the rates for unreported race and ethnicity escalated from 6% to 9%, eventually soaring to 17% by 2020.

The CFPB highlighted that Bank of America offered inadequate supervision for loan officers collecting HMDA-reportable data over the phone. Despite repeated instances of officers not requesting this information, the bank simply overlooked the problem.

**Employee training is key to HMDA compliance.**

Effective employee training is the core of any strong compliance management program, especially for banks and mortgage lenders. Training promotes adherence to HMDA.
HMDA training programs must be tailored to the employees' specific roles, considering their prior experience and level of expertise. New lending officers require a fundamental understanding of regulatory compliance duties, including the significance of collecting demographic data for HMDA-reportable loans.

As employees progress or their roles evolve, they need enhanced comprehension of compliance regulations, such as Fair Lending, Redlining, Unfair, Deceptive or Abusive Acts or Practices (UDAAP), and the Community Reinvestment Act (CRA). This approach equips employees with the necessary knowledge for their current roles and prepares them for future responsibilities and challenges within mortgage lending.

**The purpose of HMDA data scrubs.**

HMDA compliance requires submitting accurate data to the CFPB's online Loan Application Register (LAR). This data includes the applicant's demographics (race, ethnicity, gender, and income), loan amounts, dates, collateral, and loan status. Ensuring consistency between the original loan documentation and the information recorded in the LAR is critical to compliance.

To maintain accuracy, lenders must regularly conduct HMDA scrubs. These scrubs compare LAR data with information in a lender's Loan Origination System (LOS) or physical loan documents.

Discrepancies between these two sets of data can result in enforcement actions and fines, which means lenders should scrub their data for errors consistently. The frequency of scrubs should be determined by an institution's size, the volume of mortgage loans processed, and its risk tolerance level.
Lenders must avoid waiting until the last minute to scrub and review HMDA data, especially considering the annual March 1 submission deadline. Regular evaluation of LOS data for inconsistencies or errors is vital to ensure a smooth and accurate transmittal.

**GMI and Fair Lending**

Lenders must collect demographic data to ensure compliance with HMDA government monitoring information (GMI).

However, when borrowers opt not to provide this information, lenders are expected to determine an applicant's ethnicity, race, and sex through "visual observation or surname," as stipulated by Reg C. In situations where this determination isn't possible, such as when applications are filled out online or over the phone, and the name offers no clues, institutions should document this using the corresponding code for "information-not-provided" by the applicant in mail, Internet, or telephone applications.

A higher frequency of "information-not-provided" entries in the CFPB's LAR raises red flags for regulators. This was evident in the case of Bank of America, where excessive use of these codes drew suspicion.

Regulators compare an institution's performance documenting HMDA data with peer institutions in the same assessment area. The most effective strategy to avoid penalties and increased regulatory scrutiny is to have a robust HMDA compliance management system.

**HMDA and compliance management.**

The effectiveness of your HMDA compliance management program hinges on having employee compliance training, scrubbing data, and having the right policies and processes in place.

The question is: How do you translate HMDA compliance policies and processes into procedures?

The case of Bank of America illustrates a gap in compliance management. While the bank likely had policies for lending officers to collect demographic data, it lacked adequate governance to ensure employees implemented these policies and processes.

Regulators and examiners emphasize the critical role of the board and management in fostering a culture of compliance. They seek to verify that lenders possess effective compliance policies and processes and actively maintain oversight. Without such oversight, the actual effectiveness of HMDA compliance policies remains unclear.

# Who Even Needs Community Banks Anymore?

**Natalie Livingston**
Director of Strategy and Marketing, Midwestern Securities

Midwestern Securities President Mike Graham has never been afraid of standing up for what he believes in. When podcaster and Barron's Associate Editor Jack Hough made a disparaging comment about community banks on a recent episode of Barron's Roundtable, Mike reached out to the journalist to set the record straight. Here is a copy of that email to the editor.

"Good morning, Jack!

My name is Mike Graham, and I'm the president of a broker/dealer, registered investment advisor, and master general agent named Midwestern Securities. We are headquartered in Central Illinois and work primarily with community banks and credit unions. We are a small institution with a little over $2 billion under management, working in Illinois, Indiana, Kentucky, and Missouri primarily.

I am a big fan of your commentary infused with humor on the Streetwise podcast and on Barron's Roundtable.
I am hoping to be able to speak with you about your commentary this morning (Sept. 8, 2023) about you seeing no need for community banks as everyone does everything on their phones. I know this was an overstatement and exaggeration, but I still want to talk with you about it. Customers are benefited by competition. You and I both agree upon that.

I've been in the financial services industry for about as long as you have. We've been working with community banks heavily for close to 20 years specifically. From my experience over my career, I generally see small community banks, that many in our country consider to be in "fly over states", outcompete and out-service regional and national banks, over and over again. I do agree that some of them need to consolidate to help them evolve their service model (do more than take deposits and make loans) for the future and gain economies of scale. That consolidation can still be small and community oriented. What I mean by that is, community banks with $100 million in deposits can join forces to be a $2 billion institution and not lose the benefits of community banking, from my perspective.

However, community banks' proximity to their customers is a huge advantage. They know their customers better, which allows them to manage risk better and service better. This usually leads to quicker turnaround for customers, as well as a more attentive and accountable banking experience for customers.

Most of the community banks that we work with are privately held and taking calculated risks with their own money and their community stakeholder's money. That is another advantage to running a community bank with a closer eye on risk, competition, service, and growth than some of these big, publicly traded banks that are playing with other people's money.

I would encourage you to talk with some of the banks that we work with. In addition to the regular retail customer experience, small businesses, including farms, need competition who understand them and their community and can help them to be able to grow, and do all the good things that growth comes with it like hiring and increasing wages.

Will you take a phone call from me? What is the best way for us to communicate?

Please check out our website www.midwesternsecurities.com. https://midwesternsecurities.com/

Please also check out our podcast Banking on Growth. https://podcasts.apple.com/us/podcast/banking-on-growth/id1696336991?i=1000625704697

Again, I'm a fan and I appreciate you and would love to have a discussion.

Thank you,
Mike Graham, CFP®"

Mr. Hough has yet to respond to this request for a meeting to challenge his thoughts. However, Mike and his team aren't slowing down in their commitment to helping community banks grow and thrive through successful, compliant wealth management divisions and their consultative approach to long-term strategic planning with financial institution executives.

Their podcast - Banking on Growth – covers topics important to community banks by featuring experienced community bankers and industry thought leaders sharing their insights and success stories. In a recent engaging episode, the team from Fairfield National Bank shared the multifaceted approach they employed in creating a community financial oasis. We learn from these leaders as they shed light on their commitment to diversifying and progressing their lines of business, from the necessity of adapting to the evolving financial landscape, exploring new avenues, and ensuring that the bank remains a dynamic force in meeting the diverse needs of its clientele.

Listen to the podcast here: https://midwesternsecurities.com/wealth-management-division-one-community-banks-story-5/

For more information about Midwestern Securities, call their team at 800-732-8601 or visit www.midwesternsecurities.com. Subscribe to the Banking on Growth podcast to find out if Mr. Hough ever responds to Mike's letter.

# Keep it Long Enough, It Will Come Back in Fashion

Elizabeth Madlem

The early 2000s are remerging with their crop tops, low rise jeans, flip phones, and mortgage buydowns. Deja-vu! Pre-crisis' teaser rates have been reborn into mortgage buydowns, both temporary and permanent. With the housing markets remaining pricey, and rates still higher than they have been in years, many buyers are looking for assistance in any form. And as the refinancing market cools down, mortgage originators are becoming increasingly more creative finding innovative ways to bring business through the door. And this has led to lender, builder, and seller concessions to help close deals.

Buydowns generally are going to refer to when a borrower pays "points" upfront to reduce the mortgage rate to a level that places their monthly payments in a range they can afford. It is thought that the rate has been "bought down" from its original rate for the entirety of the mortgage by paying a lumpsum upfront. The more recent trend has been for these to be seller-paid rate buydown concessions, with the seller offering to reduce to buyer's mortgage interest rate for either the first few years (temporary) or for the duration of the loan (permanent). The seller is either contributing to the buyer's closing costs or paying for a temporary rate buydown.

What the market is seeing now is an influx of temporary buydowns, with the most common ones being a "2-1" and "1-0," meaning a 2-percent interest rate reduction in the first year and a 1-percent interest rate reduction in the second year, or a 1-percent interest rate reduction in the first year only, respectively. Sellers, builders, lenders, or a combination of all three put-up money to cover the difference in interest rate payments between the original mortgage rate and the reduced mortgage rate. So for a 2-1 example, the mortgage rate is reduced by 2% for the first year and then will step up by 1% in the second year, and another 1% in the third year to reach the actual mortgage rate at origination. It essentially works as a subsidy for the first two years of the mortgage before reverting to the full monthly payment. And the benefits are there for consumers—it can make purchasing a home more affordable (even if temporarily) and can "buy time" for borrowers to refinance into a lower rate should interest rates fall.

With permanent rate buydowns, generally, it will be a seller paying a portion of the buyer's closing costs that are used towards buying mortgage discount points, with each point reducing the rate on average by about 0.25 percentage points, costing 1% of the loan amount. So if a borrower bought a $500,000 home with a 20% down payment, the mortgage amount would be $400,000, with each point costing $4,000. With permanent buydowns, borrowers are historically slower to refinance given the cost/benefit decisions taking place with recouping upfront money put down for the loan versus refinancing costs associated with a new loan.

But one of the biggest issues with buydowns, either temporary or permanent, is proper disclosure on the Loan Estimate (LE) and Closing Disclosure (CD). For disclosure purposes, there are specific Regulation Z contemplated buydowns: third-party buydowns reflected in a credit contract; third-party buydowns not reflected in a credit contract; consumer buydowns; lender buydowns reflected in a credit contract; lender buydowns not reflected in a credit contract; and split buydowns (see 12 CFR 1026, Supp. I, Paragraph 17[c][1]—3 through 5).

Regulation Z provides numerous scenarios that determine whether the terms of the buydown should be reflected in the LE and CD. Generally, the following buydowns are reflected in the disclosures: third-party buydowns reflected in a credit contract; consumer buydowns; lender buydowns reflected in a credit contract; and split buydowns (consumer portion only). Otherwise, a third-party buydown not reflected in a credit contract, a lender buydown not reflected in a credit contract, and a split buydown (not third-party e.g.- seller's portion) are not included.

With most of the criteria for determining whether a buydown is reflected on the LE and CD being dependent upon a credit contract, it is important to note that Regulation Z does not define a credit contract. But it is stated as being a contract that forms a legal obligation between the creditor and the consumer, as determined by applicable State law or other law. So whether or not a buydown agreement would be considered a credit contract or legal obligation between the creditor and consumer depends upon what "State law or other law" consider to be a legal obligation. Whether a buydown agreement is actually modifying the terms of a note or contract is going to depend on how it is structured and whether that note or contract ultimately is reflecting that lowered interest rate. Counsel should be included in any final determinations, as well as investor requirements.

So where should the terms of the buydown be reflected in the LE and CD? Unfortunately the commentary does not provide an "item-by-item" list of what parts of the LE and CD the buydown should be reflected in. The key requirement to remember is that if the buydown is required to be reflected, it must be reflected in the finance charge and all other disclosures affected by it. That includes the "Finance Charge" on page 5 of the CD (except for seller-paid buydown fees as those are considered seller's points); the "Annual Percentage Rate" on page 3 of the LE and page 5 of the CD; the "Projected Payments" table on the first page of the LE and CD; and the "Product" on the first page of the LE and CD reflecting a step rate.

There are different ways proper disclosure can be done dependent upon the specific loan scenario. Sometimes a buydown is money going to the borrower from the seller, while other times it is money going to the bank from the seller. These would be disclosed differently. So, the first question to ask: Who is giving money to whom, and for what purpose?

A more common scenario for temporary buydowns is where the buydown is seller paid and is not being reflected in the note or credit agreement as it is contracted for between the buyer and the seller. How is this properly disclosed? Well, the most common way to disclose this, since it is not reflected in the note or credit agreement, is to disclose this as a Seller Credit. Since this is not considered discount points that either the buyer or the seller are paying to the bank, the bank would not disclose in Section A. The bank is not involved in the scenario where a buydown agreement is solely between the borrower and the seller. Rather, the regulation and commentary do not specify that this must be disclosed in any particular way, so it is viewed generally as just a concession from the seller, which has multiple ways of compliant disclosure.

Disclosing as a Seller Credit as noted above being the more common. This would be found in the Calculating Cash to Close Tables (LE & CD) and also in Section L on the CD, as it is not a credit that is paying any specific fee listed on page 2 of the disclosure. It could also be disclosed in Section N of the CD as a seller credit due at closing.

If it is a situation where the buydown funds are from the seller to the bank, it would be disclosed in Section A in the Seller Paid column, and not Section H because the recipient of Section H fees are third parties, and the bank is the one receiving the fee. In this instance, the money from the seller is specifically being used to buy down the rate, which is a Section A fee, since that is paid to the bank.

There are other arrangements in which the seller just gives the borrower some money to make up the difference in what the borrower is paying between Rate A and Rate B with no actual buydown of the rate taking place. This is a Section N disclosure. But in the instance in which the bank will actually be the recipient of the fee, and the fee from the seller is to pay for a specific loan cost, it should be disclosed in Section A.

The remix is happening—the early 2000s are repeating themselves. But even more so now with the increased examiner focus and scrutiny on consumer harm, it is important to make sure the bank is aggressively reviewing its buydown loan programs for the risks they can bring: reputational, compliance, legal, credit, and fair lending, and diligently documenting justifiable business decisions, reviewing investor requirements, and examining for proper disclosure and fair lending implications.

# Amid the AI Hype, What Should Your Bank Do?

**Milton Bartley**
President and CEO
ImageQuest

There has been much excitement over how Artificial Intelligence can improve efficiency and productivity. Every conference, regardless of the host and theme, includes a session or sessions on AI, and articles everywhere trumpet the promise of AI.

AI tools can analyze large volumes of data in real-time and provide immediate decisions or guidance on subjects from creditworthiness to fraud detection. They can automate routine tasks, including compliance reporting, data entry, and email or chat support, freeing your team to focus on strategic initiatives. AI tools can even write reports, generate presentations, and craft custom marketing images.

But while current market fervor may prompt jumping on the AI train, we want to caution our community banking friends to consider these points first.

**1. Regulators have yet to issue requirements surrounding the use of AI.**

But they are certainly discussing it. The Federal Reserve, the FDIC, the OCC, the CFPB, and the Senate Banking Committee – have all commented this summer on their concerns about the use of AI. The main fears center around potential discrimination in lending and criminals using AI to impersonate customers. In October, President Joe Biden issued an Executive Order on Safe, Secure, and Trustworthy Artificial Intelligence. This new directive will likely boost efforts already underway to police the use of AI with an emphasis on preventing privacy and discrimination-related concerns surrounding personal data and financial transactions.

In January 2023, the National Institute of Standards and Technology (NIST), the nation's leading authority on standards and technology specific to the nation's economic security, issued a new Artificial Intelligence Risk Management Framework and a companion playbook. This is the first comprehensive attempt at industry guidance, and it is an effective tool; however, this framework will likely be updated as organizations evaluate its effectiveness.

An American Banking Association Journal report quoted Acting Comptroller of the Currency Michael Hsu as urging banks to be cautious in implementing AI products. Hsu urged bankers to talk with their regulators as they consider AI products "rather than engaging with them afterward." That is sound guidance, even if, at this point, regulators are at best only in the comment stage with any requirements around AI.

We know the marketplace is ripe with competitors who may have the means to introduce AI products, so we assume your bank will, at some point, introduce AI products. But before you do, here's our second point.

**2. Develop a clear AI strategy for your bank.**

What problems do you think AI can solve at your bank? How can AI help your bank? What exactly would AI help you do faster or more accurately?

The Large Language Models that have garnered marketing cache (e.g., ChatGPT, Bard, Perplexity) use deep learning algorithms that can recognize, summarize, translate, predict, and generate content using large datasets. But there are dozens, if not hundreds, of niche AI products that solve particular business problems. Consider where you need help with bottlenecks or unsatisfactory customer experiences. What is routine – and time-consuming? Where do you need answers quickly about trends? And decide if an AI tool can fill that gap in your business process.

Common suggestions include fraud detection, generating compliance reports, business intelligence reporting (e.g., tracking loan trends), and customer service. But what specific issues does your bank face? Are there other ways to solve these problems?

**3. Develop policies for the use of AI at your bank.**

Are you concerned that your employees already use AI tools to help them with their work? Have you asked them? Have you or your legal team reviewed the terms and conditions of these commercially available tools like ChatGPT? What about the fear of using "poisoned data" or data that has been corrupted or altered in misleading ways? Who owns the data you type into the tools? These are all points that a well-crafted AI policy should address.

What precautions will you take to prevent bad actors from using AI against your bank and customers? What controls can you enact to keep a criminal from impersonating a customer and fooling your AI platform? These are all questions you should consider and address in your policies and procedures before adopting any new AI-based technologies at your bank.

**4. Consider using outside expertise.**

Your community bank is likely already facing pressures from larger competitors, who presumably have internal staff who are experts in AI for financial institutions. You can benefit by leaning on reputable FinTechs, including your core processor. They have the resources to test and refine AI software to meet banking requirements. And they understand the business problems you are trying to solve.

But beware – there are many startup companies in the marketplace offering AI-powered Fintech for banks. With recent interest rate changes, many have or are quickly running out of capital. Exercise good judgment during due diligence.

Even then, consider consulting with a company, such as ImageQuest, that routinely assesses IT and AI services for our clients. We can help you choose the correct solutions for your bank's specific issues – and, in some cases, help curate the best tool(s) for your bank.

**5. The Trough of Disillusionment**

Gartner, a leading research and advisory firm, has coined the phrase "Gartner Hype Cycle" to represent the social reaction to new technology. The cycle includes the "Technology Trigger," introducing a new or breakthrough technology, followed by the "Peak of Inflated Expectations." AI hit peak excitement in Q1 2023.

Now AI is in Gartner's "Trough of Disillusionment," where a new technology fails to deliver on its early promise. To be sure, the Hype Cycle continues as more people work with and understand this emerging technology, leading to "Mainstream Adoption."

But for now, we don't want our community banker friends disillusioned over costs, mistakes, and disappointment with their plunge into AI. If you follow the measures above, you will be ahead of the curve.

The Cecilian Bank

Your Hometown Connection

# RESOLUTION OF THE BOARD OF DIRECTORS OF THE CECILIAN BANK IN MEMORY OF BOB OWSLEY

WHEREAS Bob Owsley served The Cecilian Bank for 65 years from September 2, 1958, until October 13, 2023, and held many positions over the years, including Chairman of the Board,

WHEREAS the community referred to him as Mr. Cecilian Bank, we affectionately knew him as our leader, mentor, a professional Career Banker and charitable to those in need,

WHEREAS Bob uniquely spread his spirit of friendship to all that came in contact with him,

WHEREAS Bob led by example in living out The Cecilian Bank's Core Values of Friendly, Quality Customer Service, Family and Community-Based,

WHEREAS he exemplified the characteristics of a Community Banker as Bob was trustworthy, selfless in service to others, had a positive impact on customers' lives and had a relentless dedication and commitment to The Cecilian Bank,

WHEREAS on two separate occasions, Bob was instrumental in keeping the bank an independent owned bank by staving off hostile takeovers,

BE IT RESOLVED, that we celebrate Bob's long-term commitment with the continued dedication of The Owsley Museum at our Cecilia location,

BE IT FURTHER RESOLVED, that we rename the bank's daily core values to the Owsley Core Values so that he may forever be interwoven into our culture and daily actions,

BE IT FURTHER RESOLVED, that this resolution shall be entered into the permanent record of the minutes of The Cecilian Bank this 21st day of November, 2023.

Approved unanimously by The Cecilian Bank Board of Directors: Lindsey Alicna, Secretary Don Wise, Sarah Mahurin, Garry Watkins, Laura Owsley, David Hawkins, David Downs, and President & CEO Greg Pawley.

*J. Greg Pawley, President & CEO*

*Sarah Mahurin, Director*

*Garry Watkins, Director*

*David L. Hawkins, Director*

*Donald B. Wise, Secretary*

*Lindsey Alicna, Director*

*David B. Downs, Director*

*Laura Owsley, Director*

# 2024 KBA BANKERS DAY IN FRANKFORT

TUESDAY, FEBRUARY 6, 2024

Legislation has the potential to affect our industry dramatically, and sometimes overnight. It is important for everyone in our industry to be prepared AND be involved. **Here are some ways you can help:**

- Get to know your Legislator. Talk to them at every opportunity about our industry.
- Attend public forums and stay informed.
- Get others in your bank involved.

Registration is $50 and includes Legislative handouts and lunch. Please visit us online to register today!

Register Now at www.KYBANKS.com!

INTRODUCING SPRING CONFERENCE 2024

# SC24

## NAVIGATING TOMORROW

**APRIL 21 - 23, 2024 | FRENCH LICK RESORT, FRENCH LICK, INDIANA | KBASPRINGCONFERENCE.COM**

It's a new year, and with it, new changes to the banking industry are on the horizon. From artificial intelligence, constant pressure from ongoing regulation, to future proofing and more, being able to adapt to these evolving landscapes has never been more important.

Are you ready to hit the ground running in 2024? Join us for this year's **SPRING CONFERENCE 2024** to see how Kentucky bankers are **NAVIGATING TOMORROW!**

***Featuring live keynotes from Milton Bartley, Robb Rempel, Tim Barnes, Dima Ghawi, Susan Sharbel, Candace DeBarger, Mentalist Josh Fletcher, Golf at the Donald Ross Golf Course and more!***

**REGISTRATION IS NOW OPEN!**
**VISIT US AT KBASPRINGCONFERENCE.COM**

NAVIGATING TOMORROW