

# KENTUCKY BANKER

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KBA SPRING CONFERENCE  
APRIL 18-20, 2021  
FRENCH LICK RESORT  
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# 2021 SPRING CONFERENCE

FRENCH LICK RESORT  
APRIL 18-20, 2021

MOVING FORWARD

# MOVING FORWARD

## **SUNDAY APRIL 18**

**Loan Renegotiation and Modification  
Preparing for your Post-Pandemic Examinations**  
Sponsored by Jackson Kelly

**Battling Margin Compression  
by Kamal Hosein, Stifel Financial**  
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**Dusting Off the Crystal Ball  
Community Banking Past, Present and Future**  
by Greyson Tuck, Gerrish Smith Tuck

## **MONDAY APRIL 19**

**Economic Update**  
by Augustine Faucher, The PNC Financial Services Group  
Sponsored by PNC

**Establishing a Diversity, Equity and Inclusion Framework**  
by Naomi Mercer, American Bankers Association

**Keeping and Attracting Young Customers**  
by Patrick Dix, SHAZAM

**Ignite Your Shift: Overcoming the Discomfort of Change**  
by Anne Bonney, Keynote Speaker

## **TUESDAY APRIL 20**

**Strategic and Practical Planning In the Current Environment**  
by Samuel LaFollette, MCM CPAs & Advisors  
Sponsored by MCM

**Understanding and Managing Human Capital**  
Homegrown & Acquired  
by Flynt Gallagher, Newclous Compensation Advisors



**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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**KENTUCKY BANKERS ASSOCIATION**

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Bold frame denotes management team member.  
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#### Represents Bank Size

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# KENTUCKY BANKER

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*Sometimes, we can better see where we are by remembering where we've been -- and that makes a difference to where we're headed.*

## STRAIGHT TALK

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& Coming Soon

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STRAIGHT TALK  
by Ballard Cassady  
KBA President & CEO

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# Expertise. Defined.

**expert** *adj* highly skillful, or knowledgeable (in a particular subject); *noun* someone who is highly skilled or knowledgeable;  
**expertise** *noun* skill, know-how,  
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CHAIRMAN'S CORNER by Mr. J. Wade Berry  
President & CEO, Farmers Bank & Trust Co.  
2020-2021 KBA Chairman

# Temporary Programs and the Ratchet Effect

*“Nothing is more permanent than a temporary government program.”*

Dr. Milton Friedman, Late American Economist

Times of national crisis naturally lead to a temporary growth of our government's power, spending, and influence over our daily lives. During times of crisis, citizens are often fearful and willing to give up freedoms and accept assistance without carefully assessing the long-term consequences of their decisions. The COVID-19 Pandemic has plunged the United States past the typical crisis phase and into an all-out national emergency. The volume of temporary government programs created in response to the global pandemic is breathtaking. The sheer magnitude of the government's increased influence over our daily lives should make Dr. Friedman's famous quip take on a rather ominous tone.

Federal government spending in support of COVID-19 relief efforts is simply unprecedented. By the end of fiscal year 2020, the federal government had authorized \$3.5 trillion for COVID relief through numerous relief packages, most notably the CARES Act with its now famous Paycheck Protection Program. As of the time of this writing, the House just gave final approval on a budget blueprint that included President Biden's new stimulus plan which would add \$1.9 trillion to COVID-related federal government expenditures. The numbers boggle the mind. The federal budget deficit soared to a record \$3.1 trillion in fiscal year 2020, due in large part to coronavirus pandemic spending and plunging tax receipts as households and businesses struggled with government enforced economic shutdowns. The budget deficit was \$2 trillion more than what the White House's budget forecast in February and it was three times as large as the \$984 billion deficit in fiscal year 2019.

The federal government is a notoriously wasteful spender. Our own Senator Rand Paul notes that the federal government spent over \$50 million in 2020 developing a master's degree in research ethics in Myanmar, trying to get Eastern Mediterranean youth to stop smoking hookah, and helping Tunisian youth feel more connected to their country's decision-making. Would any individual spending his or her own money choose to spend money on these things during a time of crisis and tremendous uncertainty? Of course not. The problem is that the politicians and bureaucrats aren't spending their own money, they're spending yours. There is no more inefficient way to spend money and allocate resources than to have bureaucrats collect and spend taxpayer money on distant third parties and unfamiliar causes.

Government has exercised more power and control over our daily activities in the past year than they have at any other point in most of our lifetimes. Surprisingly, most of the control over our daily activities has been as a result of state government influence and not federal government. The great crises of the past century, from the Great De-

pression and World War II to 9/11, all had at least one major thing in common: the federal government assumed greater power and authority in response. COVID-19 has been an exception. Federal spending has increased dramatically but much of the actual power grab has occurred at the state level because President Trump largely outsourced the pandemic response to the states. His reasons for doing so are not clear. It's hard to envision him sitting in the Oval Office late at night reading the Federalist Papers of Madison, Hamilton, and Jay. State governors, including our own Governor Andy Beshear, seized the burden of deciding who is and who isn't essential, how many people can attend a funeral, and how many people can be at Grandma's house for Thanksgiving. Travel bans were instituted for the first time in memory. Surprisingly, the public has been more than willing to go along. During the 2009 financial crisis, only 26% of Republicans and 52% of Americans overall approved of the federal government's direct involvement in the crisis. On the other hand, a 2020 Wall Street Journal/NBC News poll showed that voters of both parties supported the government's involvement in the COVID-19 crisis by a 2-1 margin. But is this growth in government involvement going to be good for the country long-term?

Economist Robert Higgs studied government responses to numerous crises and observed what he termed a "Ratchet Effect." When a crisis begins, government leaders pursue their often well intended objectives by means of new government policies, new government agencies, new statutes, new court decisions, and new executive orders. When the crisis ends, some emergency agencies remain in operation; some emergency laws remain in force; and some court decisions reached during the crisis stand as precedents for future decisions, including decisions to be handed down in normal times. Once a crisis has passed, state power usually recedes again, but it rarely returns to its original levels; thus each emergency leaves the scope and power of government greater than before. Historical examples of Higgs' "Ratchet Effect" are not hard to find. Recent examples include significant and permanent expansion of government surveillance in the aftermath of 9/11, and a long-term increase in financial regulation as a result of the 2007-2008 financial crisis. TARP went away, but Dodd-Frank did not!

Ronald Reagan may have said it best when he said, "The most terrifying words in the English language are: I'm from the government and I'm here to help." To be fair, our elected leaders have had an incredibly difficult job on their hands since early 2020 when they were suddenly faced with a global pandemic. No potential solution was perfect, and there wasn't adequate time to properly analyze and assess the endgame. But now is the time for all of us to do our duty as citizens and make sure that the temporary government programs enacted during the crisis do not remain in place after the crisis. We must make sure that the potentially massive post-COVID "Ratchet Effect" is minimized. A government program that's here to STAY might be the only thing more frightening than a government bureaucrat who's here to help.



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STRAIGHT TALK by Ballard Cassady  
KBA President & CEO  
bcassady@kybanks.com

# Banking: Now, Then & Coming Soon

Sometimes, we can better see where we are by remembering where we've been — and that makes a difference to where we're headed. Even if that understanding inspires more worry than reassurance, we'd be in more trouble without it. What we know enough to worry about, we can better deal with.

Now...

We are knee deep back into another tranche of PPP money with no cure in sight for the ongoing disconnect between congressional mandates and Main Street implementation. Bankers, here in Kentucky and across the country, continue to squander valuable resources dealing with the antiquated technology and bureaucratic snafus at the Small Business Administration (SBA).

Maybe if members of Congress spent more time talking to people at the SBA about implementation issues there would be fewer problems but, that would require some forethought. Although a lot of money is going out bank doors, there seems to be serious disconnects. The lack of guidance on how to correct error codes seems to be the biggest concern at this point. The slow process of loan forgiveness also continues to boggle the reasonable mind and the black holes one can be thrown into when trying to resolve a borrower issue, leads one to wonder if they really want to help. The list of such glitches is long and damning. As much as I want to blame this ALL on the SBA, I can't. The sheer loan volume and dollar amounts is staggering and is more than the SBA has handled in multiple years, not to mention just a few months. However, given the tax dollars that have gone into the SBA bureaucracy we should be able to expect better.

By contrast, the private sector component of PPP — our industry — has carried out its piece of PPP with heroic commitment to meeting needs. While you were meeting the needs of your customers, the KBA was meeting your needs with up-to-the-minute answers on compliance questions arising from the PPP's poor design and rollout. Debra Stampler and her legal team have remained at the forefront nationally in nailing down the correct procedures in a timely way.

Then...

In the midst of this morass, I ran across a 1998 article\* by my friend Larry Webster, a fellow Pike Countian and Transylvania/Green Lantern (inside story to old TU students) graduate. Larry was a full-time lawyer and political junkie, as well as a part time writer with a column called *Red Dog*. The column was entitled "An open letter to Johnnie Coleman", who was at the time terminally ill. Mr. Coleman was President of First National Bank of Pikeville, the first banker I ever worked for. He watched me grow up behind the teller window, where I started at age 15. His sense of humor was legend, like when he played a trick on me coordinated with different people all over town to get back the bank's "money bag stretcher."

The article touched off great memories of Pikeville and John E. Coleman's banking era, pre-Jimmy Carter and Bert Lance, when banking was a purely risk business based on three C's: Character, Capacity and Collateral. Webster's tribute to Mr. Coleman focused on the way he used Character, in the way that shaped the people he served and their town for the better. I paused to curse Dodd-Frank, one more time, for gutting that banking fundamental. But I was also reminded that the bankers I'm proud to serve have held on to the spirit of a John E. Coleman, despite all the regulatory barriers.

Coming Soon...

Can we sustain banking and its best traditions into the future that is unfolding? We've had a few weeks to size up how a new administration will alter our playing field and change the rules of our game. There is little doubt that re-regulation of banking is on the short horizon. Our service to the nation in 2020 and 2021 with the PPP rollout should have earned our industry some respite from the demonization that is a reflex with many in Washington.

But then, folks seldom get what they deserve these days — good or bad. What matters most is political power, how to get it and how to keep it. Our industry represents a powerful tool for transforming America as we know it, and those bent on such a transformation are learning how to use it. For those of us with other priorities — who think America's past contains much that is good and essential, who remember how banking enabled the dreams of individuals and families and communities — the need for unity of purpose and action has never been greater. As Forrest Gump said, "and that's all I have to say about that!"

SO, as my ole granny used to say, "Get that mule's head up and keep on plowing!"



\*If you have time to be inspired, see the article at: [www.kybanks.com/kba-files/pdf/media/Open\\_Letter\\_JohnnieColeman.pdf](http://www.kybanks.com/kba-files/pdf/media/Open_Letter_JohnnieColeman.pdf)

# Join the Bank On Movement



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## WHAT IS BANK ON?

Bank On, led by national nonprofit organization the Cities for Financial Empowerment Fund (CFE Fund), works to ensure that everyone has access to a safe, affordable transactional banking account. Over 90 local Bank On coalitions across the country working to expand banking access in their communities, including by connecting consumers to opportunities to access Bank On certified accounts at scale.

The Bank On National Data Hub, established in partnership with the Federal Reserve Bank of St. Louis, to streamline financial institution reporting and aggregate information on Bank On account opening and usage. For example, Data Hub reporting showed that 75% of Bank On certified accounts were opened by customers completely new to the financial institution.

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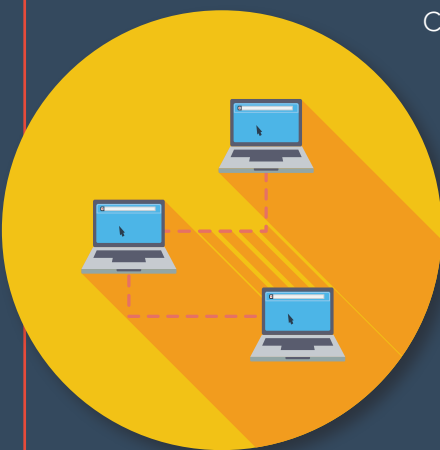
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## During COVID-19, did you mobilize a **REMOTE WORKFORCE?**

Did this mobilization create any security holes?



COVID-19 forced workforces which are designed to be in-person and client-facing to mobilize quickly. During this unprecedented time, your organization may have seen IT security holes after mobilizing. Dean Dorton's cybersecurity team can provide your organization with penetration testing which **assesses the effectiveness of implemented security controls (whether technical or administrative) to prevent, detect, or respond to a threat actor or threat action.**

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**DEANDORTON**  
TECHNOLOGY





MY TWO CENTS by Debra Stamper  
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# LEADER OF THE PACK

I have been thinking about leadership lately.

When I work on Paycheck Protection Program issues, I see the leadership taken on by our members in their communities, prioritizing and assisting with the options available for the small businesses and individuals.

When I work with our Emerging Leaders, I see the responsible and forward thinking steps our members are taking to ensure that the future of their bank is protected through preparation of the next generation of bank leaders.

So, on those issues, I submit the following thoughts.

The Paycheck Protection Program has been difficult—both rounds! It was difficult the first round, because it happened so fast. SBA was not prepared for the onslaught of loans, both in quantity of applications and the amount of loans. Lenders were not prepared for the number of borrowers desperate for their assistance. Further, most of our members were not current SBA lenders and, therefore, needed to obtain authorization on the SBA system and familiarize themselves with even the basics of SBA lending. Once authorization was obtained, the portal crashed any number of times. To top all of that off, the rules were being written by both the Treasury and the SBA as the program was being implemented and rules changed with some frequency, leaving lenders trying to figure out which rules applied to which loans.

Now, on the second round, it should be easier, but the rules are changing again. Loans for certain borrowers are calculated differently (especially for farmers) which potentially allows for a greater loan. These borrowers can get a loan made during the first round increased, but only if the first loan has not yet been forgiven. On top of that, the second round also allows for a second loan for some borrowers who can show increased loss in profits, if the circumstances are correct. This brings new borrowers and old to your branches just to see if they are eligible for this second PPP loan. But, even as the borrowers line up there are still so many questions unanswered. Questions that sometimes the SBA can't or hasn't yet answered.

You often call us for help in these instances, and we do the best we can, but we can only give you information that we have or what we believe to be a reasonable interpretation of the rules as they are currently written, even when you think that you understand the rules. The onus has been placed on the lender as you accept the applications and the documentation presented by your borrower to establish that you are relying on that information ... in good faith.

Does good faith mean that if a borrower is applying for a loan and you know that their business is doing better than ever and that the borrower should not be able to certify that “the current economic uncertainty makes this loan **necessary** to support the ongoing operations of the Applicant,” you might have to turn it away? While the rules say that you are not expected to dig deeper than the face of the documents and

information provided, good faith puts some kind of additional responsibilities on your bank. Should you question information that looks exaggerated or incorrect? That decision is yours alone, but making sure that the borrower take responsibility as well.

The borrower must complete the application and attest to the certifications required. You cannot guarantee that the loan will be approved or that it will be forgiven. Taking on that responsibility could leave you the bank and the credit officer in a bad place if the borrower feels that they were provided the wrong guidance. PPP places our members in a difficult position because of your enthusiasm to assist your customers and community. We have the same enthusiasm here at the KBA to assist you. We will continue to provide the assistance that we can, when we can and we will get through it together.

And, eventually, we will be back to some reflection of normal and we will be focusing on the future again.

That future leads me to the Emerging Leader program. This has been a fantastic program for those who participated. I believe the nominating banks feel the same way, because I see that they continue to nominate new participants. The program provides opportunities for participants to learn leadership skills and to develop a professional network of like-minded next generation leaders in Kentucky's banking industry. This year's class was at a disadvantage as compared to previous classes because of the unusual circumstances of a pandemic, but we have worked to ensure that they receive as many opportunities as the classes before them to strengthen their value to you as their employer. We won't be accepting nominations this year, because we want to ensure that the program offers the opportunities that has made it successful. On that note, we ask for your feedback.

The KBA wants to make sure the program stays fresh and provides your bank with the tools you need for your emerging leaders. We network with other state associations to discuss their emerging leader programs and are always looking for new tools and opportunities for participants. Look for a survey coming to you in the next few weeks asking for your input on the types of changes and programs you would like to see offered to your emerging leaders. You can always say that you like it just the way it is!

Finally, and also looking towards the future, the Eastern Kentucky University College of Business and Technology reached out to our Education Department to help ECU create a new program for community bankers who are interested in a career in fintech with their bank. ECU is looking to obtain information from our community banks about the types of “fintech” they see in their banks' futures and how the University can work with banks and bank employees to provide training necessary to position your employees to be able to work with or evaluate options for your bank. That survey will also be coming your way soon!

I am ready to see your faces at Spring Conference. Make sure that you register! Hope to see you guys soon!

**RESOLUTION IN MEMORY OF  
Robert Neil Black**

*At the regular monthly meeting of the Board of Directors of Clinton Bank held on Tuesday, January 12, 2021, the following Resolution was unanimously adopted:*

*WHEREAS, Robert N. Black was employed by the bank on October 16, 1961 and served in many capacities including President and CEO; whereas, he joined the bank board in July 1984, serving as Chairman from March 2011 to March 2016, and;*

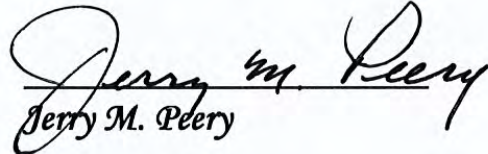
*WHEREAS, Mr. Black continued his service to the bank until his passing in December of 2020, and;*

*WHEREAS, Mr. Black served the bank and the community honorably, faithfully, and with distinction, providing insight, perspective and wisdom in all circumstances, and;*

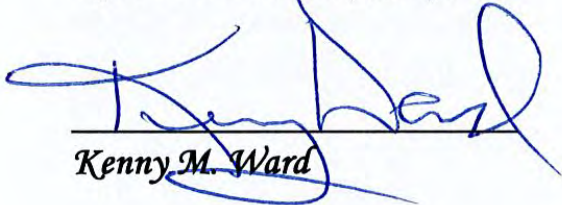
*THEREFORE, this board of directors expresses its deep sorrow at Mr. Black's passing and its appreciation for what he has meant to both our bank and community, and extends its deepest sympathies to his family.*




Robert F. Williams, Chairman



Jerry M. Peery



Kenny M. Ward



Richard S. Thomas



Lisa B. Rushing



Glenn D. Reid



Joshua R. Burgess



## 2020 WELLNESS PROGRAM WINNERS

Name	Bank	Amount	Name	Bank	Amount
Kristina Jones	First Kentucky Bank	\$5,000	Casey Guernsey	KBA	\$100
Nicola Roberts	Franklin Bank & Trust	\$1,000	Lindsey Garner	Citizens Bank of Cumberland Co.	\$100
Lee Ann Hobbs	The Citizens Bank	\$1,000	Kathy Haygood	First Kentucky Bank	\$100
Mary Hawkins	Peoples Bank of KY	\$1,000	Kimberly Frasure	First & Peoples Bank	\$100
Kari Jill Edwards	First Kentucky Bank	\$1,000	Lori Treas	First Kentucky Bank	\$100
Christina Fry	Citizen Union Bank	\$1,000	Myles Thomas	Wilson & Muir	\$100
Jennifer Hatter	Casey County Bank	\$500	Matt Vance	KBA	\$100
Natalie Kaelin	KBA	\$500	Audrey Whitaker	KBA	\$100
Melissa Meadows	Commercial Bank of Grayson	\$500	Kathy Kinner	Citizens Bank of Kentucky	\$100
Karen Hamm	Peoples Bank of KY	\$500	Nancy Long	First Federal Savings Bank	\$100
Tonya Lynam	Magnolia Bank	\$500	Sandy King	Citizens Union Bank	\$100
Andrea Morris	Farmers Bank Marion	\$500	John David King	Hometown Bank	\$100
Susan Malone	The Citizens Bank Hickman	\$500	Janelle McWilliams	Hometown Bank	\$100
Michelle Madison	KBA	\$500	Mike Mattingly	KBA	\$100
Catherine Lanier	The Murray Bank	\$500	Kristie Ferguson	First Kentucky Bank	\$100
Tana McQueary	Bank of Jamestown	\$500	Joan Dewitt	Town & Country	\$100
Melissa Jones	Citizen Union Bank	\$500	Michele Clifton	First Kentucky Bank	\$100
Terri Lee	Casey County Bank	\$500	Sheila Boaz	First Kentucky Bank	\$100
Alan Swift	Citizen Union Bank	\$500	Suzette Blair	First United Bank & Trust	\$100
Ruth Ann Thomas	Wilson & Muir	\$500	Dorothy Bickett	Springfield State Bank	\$100
Kira Brown	Peoples Bank of KY	\$500	Tim Barnes	Hometown Bank	\$100
Abby Smith Russell	Springfield State Bank	\$500	Tanner Barnes	Hometown Bank	\$100
Kimberly Blackwell	First Kentucky Bank	\$500	Anthony Blakey	Bank of Jamestown	\$100
Marsha Barnett	Hometown Bank	\$500	Sharon Adkins	First & Peoples Bank	\$100
Josh Coffman	Hometown Bank	\$500	Alma Abell	Town & Country	\$100
Malissa Combs	Peoples Bank of KY	\$500	Anthony Case	Peoples Bank of KY	\$100
Stephanie Henry	Planters Bank	\$100	Tammy Cruse	Wilson & Muir	\$100
Lisa Mattingly	KBA	\$100	Connie Devore	Bank of Columbia	\$100
Ambria Hites	Bank of Jamestown	\$100	Angie Duncan	United Community Bank	\$100
Connie Hardy	Town & Country	\$100	Alaina Donley	KBA	\$100
Margarette Gross	Peoples Bank of KY	\$100	Theresa Hurst	Town & Country	\$100
Melissa Yates	Town & Country	\$100	Todd Johnson	Peoples Bank of KY	\$100
Kristie Stamper	First Kentucky Bank	\$100	Kelly Marie Jude	Citizens Bank of Kentucky	\$100
Chad Stubblefield	Murray Bank	\$100	Jason Jones	Morgantown Bank	\$100
Angela Stice	Bank of Maysville	\$100			
Jennifer Whalen	First Federal Savings Bank	\$100			
Carolyn Matthews	First Kentucky Bank	\$100			
Donna Meyer	First & Peoples Bank	\$100			
Carolyn Mulcahy	First Federal Savings Bank	\$100			
Marilyn Moore	First National Bank- Brooksville	\$100			
Kirk Pierce	Franklin Bank & Trust	\$100			
Ethan Pelphey	Citizens Bank of Kentucky	\$100			





**BANKERS HEALTHCARE GROUP**  
Leader in Medical Loan Originations

# Bankers Healthcare Group Now Endorsed by the KBA

The KBA is excited to announce our endorsement of Bankers Healthcare Group (BHG).

Established in 2001 BHG is a direct private lender of commercial and consumer loans to professionals throughout the US. BHG is 49% owned by Pinnacle Bank (Nashville – TN) as has grown to become the #1 source for medical and professional loans across the country. Having underwritten over \$25 billion in loans, they have gained unmatched insight into these borrowers.

Today, more than 1,150+ community banks, including 28 in Kentucky, have partnered with BHG to buy these high-quality loans through their state of the art, secure delivery platform: The BHG Loan Hub. With record availability, outstanding performance, \$0 historical bank loss on the Core Loan portfolio, and 3 - 6.5% return, now is the time to become a part of the BHG Bank Network.

BHG is providing exceptional service and with the KBA endorsement they are looking to extend their partnership with more Community Banks across Kentucky.



For more information and to learn how your bank can partner with BHG, please contact Jordyn Sollars, VP, Institutional Relationships, by calling (954) 829-1725 or email [jsollars@bhg-inc.com](mailto:jsollars@bhg-inc.com).

## Testimonial

*"We were one of the first banks in Kentucky to start using BHG in 2008. BHG's online loan hub has worked great for our bank! There is no bank too small to use BHG – the program is excellent for all banks. BHG staff provide exceptional customer service and are tremendous resources. I recommend BHG to all KBA members!"*

Mr. Terry L. Bunnell, Chairman  
President & CEO, The Peoples Bank, Marion



# Member-Owned SHAZAM Now Endorsed by the KBA

Kentucky Bankers Association is pleased to announce our endorsement of SHAZAM, a nationwide leader in debit processing and core banking systems. We chose to endorse SHAZAM because of the company's unique position in the payments industry as the only member-owned, independent debit network, processor and core provider supporting community banks. Their mission is to strengthen community financial institutions, just like yours.

"Earning the endorsement of community bankers in Kentucky is a validation of SHAZAM's commitment to keeping community banks across the country strong and competitive," said Paul Waltz, SHAZAM president and CEO. "KBA members are the real economic engines of their communities, and we look forward to bringing our affordable and reliable payments solutions to more members."

SHAZAM's member-owned structure means the company doesn't answer to outside shareholders. SHAZAM answers to its member owners. This allows them to reinvest profits in technologies that support KBA banks as you serve the next generation of consumers. When it comes to fees, SHAZAM offers the lowest network switch fees in the industry.



To learn more about how your bank can improve net profitability and improve customer service from SHAZAM's team of experts, contact Rob Buchanan, regional director of sales, EFT at [rbuchan@shazam.net](mailto:rbuchan@shazam.net) or (901) 606-8307.

## Testimonial

*"The Bank of Cadiz & Trust Co. has utilized SHAZAM's debit card program for 18 years. SHAZAM's support and customer service is excellent. Their focus on community banks is significant and I recommend them to other KBA members."*

Kevin Atwood, President/CEO  
Bank of Cadiz and Trust Company, Cadiz



# Home Federal Bank is Rebranding to Hearthside Bank, Commits to Remaining Always Within Reach

Home Federal Bank is excited to announce that it is rebranding to “Hearthside Bank.” The change signals the century-old bank’s commitment to serving its clients with the same integrity, trust and commitment that it has provided since 1920.

“We want to assure our customers that we aren’t going anywhere, and the bank is not merging or being acquired in any way” President and CEO Alex Cook said. “The name Home Federal Bank and our green logo have served us well for more than 60 years. In 2020, we were honored to celebrate our 100th year of business and felt the timing was right for a refreshing, new look. Hearthside Bank ties into our deep roots in the community but allows us to differentiate ourselves looking ahead.”

The ownership structure and management team will remain the same, as will the bank’s staff and operations. Cook said customers can expect the same dependable, personal service. The change better embodies the bank’s values and approach, and it positions Hearthside to serve customers even better in the future.



Home Federal Bank’s new name, “Hearthside” incorporates the stone fireplaces in most of the bank’s branches. It reflects the warm, comfortable, family atmosphere that Home Federal has always provided. The new logo features a hearth and flame in a navy and orange color scheme. These colors were thoughtfully chosen to represent Home Federal Bank’s positioning in both states - Kentucky and Tennessee.

Aside from the name, colors and logo, customers can expect minor changes to services like their mobile app and online banking as the bank transitions to its new brand throughout 2021.

# Paducah Bank Teen Ambassadors to Serve as Tutors for Kids of Lourdes COVID Employees

As students head back to school in its many forms in 2021, many parents are seeking much-needed assistance to support their children who are often studying at home. The Paducah Bank Teen Ambassadors saw a way to help and are offering their tutoring skills to families who could use a little academic support. Nineteen students from the bank’s Teen Ambassador Program have volunteered to offer free tutoring services to the children of Lourdes Hospital’s COVID employees. The high school students represent McCracken County High School, Paducah Tilghman High School, Marshall County High School, and Community Christian Academy, and offer tutoring for elementary, middle, and high school students.

“We provided the hospital a list of tutors and contact information,” said Morgan Guess, a member of the Paducah Bank Ambassador Alumni Board. “Tutors have chosen their areas of expertise and are offering their services to students who may need help in those subjects.”

“I applaud our creative, thoughtful and generous group of Paducah Bank Teen Ambassadors,” said Paducah Bank President Mardie Herndon. “Supporting education has always been central to our community involvement and this effort vividly illustrates our appreciation for those on the frontline of the pandemic. Challenging times require creativity and kindness...our Ambassadors have answered this most unique call to action. I’m proud of our partnership with Mercy Lourdes and appreciate those serving to help those in need.”





**H. Lynn Ledford**

December 1, 1939 – December 24, 2020

As we reflect on the passing of our longtime leader, mentor, and friend, Lynn, all of us at Town & Country Bank and Trust Co. extend our heartfelt condolences to his family – wife, Carlene; sons Lynn, Jr. (Beth) and Daniel (Barbara); step-daughter, Brandie (John); grandchildren Benjamin, Elizabeth, Zeke, and Peter; step-grandchildren Halli and Tyler; and his brother, Craig (Lynn) and family.

There is not one part of our bank that doesn't owe its success to Lynn's foresight, energy, enthusiasm, optimism, and roll-up-your-sleeves work ethic. Our community involvement and many awards are a fitting tribute to his character, but they only scratch the surface of what his leadership has meant to us – both as a business, and as individuals.

Lynn led by example. His involvement in so many community organizations and initiatives are difficult to measure and is perhaps unmatched in our time. And he encouraged involvement by those around him.

While we feel a great loss, we are heartened by the immense benefits of his contributions to the quality of life all around us in Nelson County, and beyond, which will stand as a lasting memorial to this fine gentleman for a very long time.

Our Pledge at Town & Country Bank and Trust Co. is to honor his legacy by continually striving to work for the betterment of our customers and community.

A handwritten signature in blue ink that reads "Raffo Wimsett Jr." with a stylized flourish at the end.

W. Raffo Wimsett, Jr.  
President and CEO



# Lytle Thomas Named President at First National Bank of Kentucky

In January, Lytle Thomas was named First National Bank of Kentucky's sixth president in its 139-year history.

The longtime Northern Kentucky banker brings 34 years of experience to the role. As a fourth-generation banker native to Kentucky, Thomas has great respect for First National Bank of Kentucky's (FNBKY) storied history.



“This bank has managed through two world wars, the Great Depression, the Great Recession and now COVID-19,” Thomas said. “It is humbling to think of the challenges my predecessors have managed. My job is to cherish the culture of the bank and to grow the bank in the Northern Kentucky and Cincinnati market with the same guiding principles that have worked for the last 139 years.”

Currently, the bank operates three branches and a loan production office in Carroll County and surrounding communities. Its first location opened in 1881 at 422 Main Street in Carrollton, Kentucky with former state senator Joseph A. Donaldson at the helm as president.

His son, J. Lyter Donaldson, succeeded him. J. Lyter would later become the chairman of the Kentucky Highway Commission; his work there led to the eventual funding of the Donaldson Highway, which provided a critical link between Dixie Highway and the Cincinnati/Northern Kentucky International Airport. Fred B. Oney, Malcolm L. Carraco, and Gregory D. Goff also served as FNBKY presidents.

“The bank has been built on 139 years of great leadership with a culture focused on serving customers and the community with superior banking service,” Thomas said, adding that he shares this passion. “I am also blessed with a fantastic board of directors, management team and family of employees to help steer the success of First National Bank of Kentucky.”

Starting in 1988, Thomas held various positions at Fifth Third's Northern Kentucky and Cincinnati branches – including senior vice president at the former – before joining Heritage Bank in 2006 and becoming President and CEO in 2010. Under his leadership, Heritage Bank grew from \$257 million in assets to \$1 billion.

A Northern Kentucky Business Hall-of-Famer, Thomas graduated from Transylvania University with a B.A. degree in Business Management. He later earned an MBA in Marketing from Northern Kentucky University.

*“It is humbling to think of the challenges my predecessors have managed. My job is to cherish the culture of the bank and to grow the bank in the Northern Kentucky and Cincinnati market with the same guiding principles that have worked for the last 139 years.”*

- Lytle Thomas

Currently, he serves on the Junior Achievement of OKI Partners board, Leadership Kentucky Finance Committee, and the American Bankers Association Community Bankers Council and Membership Committee. Formerly, Thomas held leadership positions in various regional organizations including Leadership Kentucky, the Kentucky Bankers Association (Former Chairman), Northern Kentucky Chamber of Commerce, HealthPoint Family Care Foundation, American Diabetes Association (Northern Kentucky Chapter), John Murphy of Ducks Unlimited, and American Cancer Society (Northern Kentucky Chapter).

“First National Bank of Kentucky will be new to Northern Kentucky but has a long history of serving the banking needs of Kentuckians,” Thomas said when asked what attracted him to the position. “We can grow the bank and serve our community and have a lot of fun doing it!”

# Commonwealth Bank & Trust Co. Appoints John W. Key as CEO Ann Wells Retires

On January 20, 2021, the Board of Directors of Commonwealth Bank and Trust Company (CB&T) announced the retirement of Ann Cowley Wells as CEO. She will be succeeded by John W. Key, the Bank's current President.

Cowley is a graduate of St. Louis University with a B.S. in Electrical Engineering. She worked for a period of time at the former Naval Ordnance Station in Louisville and attended Bellarmine University for some time to further her accounting education. Ann's tenure with Commonwealth Bank dates back to her original election to the Board of Directors in 1981, followed by an interim Chief Executive Officer appointment in 2005.

She was formally appointed as the Bank's CEO in 2008. Her 40 years of industry service are marked by many partnerships in business and philanthropy – notably Jewish Hospital Foundation, School Choice Scholarships, Downtown Rotary, Actors Theatre and Louisville Collegiate School.

Ann has also served on the boards of Jewish Hospital Shelbyville Advisory, JB Speed Art Museum, Citizens Financial, Filson Historical Society, and she currently serves as Chairman of Board for Riverport Authority. Ann will continue to serve as Co-Chair of the CB&T Board of Directors – alongside her husband, Darrell R. Wells – and as Vice-Chair of the Bank's holding company, Commonwealth Bancshares, Inc.

John Key, Ann's successor, notes, "Our Family of Bankers – from the board to management and employees – are grateful to Ann for her guidance and wish her well as she retires from day-to-day service to the Bank. We support her as she embarks on new challenges that include spending more time with her husband, Darrell, her four children and grandchildren and many close friends. She has made an impact on so many of us, professionally and personally."

With over 35 years of experience in financial services, John Key has successfully adjusted to the ever-changing banking landscape. His banking career began while working towards his B.S. in Finance at the University of Southern Indiana, Evansville.

Before joining CB&T in September 2011, John served in a variety of roles for Old National Bank and concluded his tenure as President of their South Central Region in Jasper, IN. From there, he took a leap to Head of Corporate Banking for Integra Bank, and later became their Chief Credit & Risk Officer. During his time with Commonwealth Bank, John has volunteered his time with March of Dimes as Chairman of "March for Babies," Boy Scouts of America, American Heart Association and Metro United Way.

Key (pictured below) previously served as Memorial Cancer Center's annual campaign chair, served as a member of the University of Southern Indiana Athletic Advisory Board and was a charter member of the Terre Haute Business Development Association. John also holds a board position with the Kentucky Bankers Association.

He is a graduate of the School of Banking, University of Wisconsin; ABA Commercial Lending School; and the IBA Commercial Lending School, among many other professional certifications.





# BauerFinancial Gives The Murray Bank Superior 5-Star Rating

The Murray Bank has again earned a coveted 5-star Superior rating from Bauer Financial, an independent bank research and rating firm. This is the 17th consecutive year that they have received the highest ranking, which signifies that The Murray Bank is one of the strongest banks in the nation.

“That’s a noteworthy accomplishment in the best of times, today, it speaks volumes,” notes Karen Dorway, President of BauerFinancial. “How do they do it? A solid sense of community, working one on one, providing solutions to people who need it – that’s the mark of a true community bank. The Murray Bank’s team members have been right there on the front lines doing whatever they could to help their neighbors and friends throughout the pandemic. And, they’ve done it all without compromising the strength of the institution itself. That’s doing well while doing good.”

BauerFinancial reviews banks on a quarterly basis using the raw data that banks file with financial regulators. Banks are rated based on a number of financial metrics including their capital ratio, profitability

and loss trend, the level of delinquent loans and repossessed assets, the market value versus the book value of the investment portfolio, regulatory supervisory agreements, the community reinvestment ratings, and liquidity. Banks are rated on a scale of zero to five stars, with five stars being the strongest.



“We are very pleased to be once again recognized as a premier financial institution by BauerFinancial,” said Bob Hargrove, President and CEO of The Murray Bank. “This recognition not only speaks to the strength of our organization across many areas, it also signals our long-standing financial performance and commitment to providing the highest level of service to our customers, community, and partners.”

## FNB Donates Over \$79,000 Back to Schools Through Spirit Debit Card Program

FNB Bank is proud to announce that they have donated over \$79,000 back to Mayfield, Graves County and Trigg County Schools through their Spirit Debit Card Program in 2020. Most recently, FNB’s 4th quarter (2020) donation resulted in over \$21,000 to the participating schools.

“We are proud to offer our exclusive FNB Spirit Debit Card every year, but especially during a pandemic year,” stated Brooke Wiles, FNB Marketing Director. “Our local schools have had to face one of the most challenging years and our hope is that the donated funds from our Spirit Debit Card Program assist with funding new projects and opportunities that benefit students and staff.”

The FNB Spirit Debit Card Program allows FNB and their customers the opportunity to give back to their local schools when they use their FNB debit card. FNB currently offers Spirit Debit Cards for Mayfield, Graves County and Trigg County Schools. The Spirit Card works like a traditional debit card and for each signature-based transaction (not using your PIN), FNB donates \$0.10 to the corresponding school. The tracking process is hassle free for the card holder, as FNB does all the tracking and submits the check to each school on a quarterly basis. The donated funds are utilized at the school’s discretion.



# United Community Bank of West KY Announces New Office Opening in Dixon

*“As a community-focused financial institution, we enjoy helping local people and small business owners with their banking goals and needs. We believe this location aligns well with our vision and mission to serve the people of Webster and Union counties.”*

Garland Certain, CEO of United Community

United Community Bank is pleased to announce the opening of a new full-service office in Dixon, Ky located at 452 US HWY 41 A South. The construction was recently completed, and a Grand Opening Celebration will be held the entire month of January 2021. The Dixon location marks the 6th office for United Community which will celebrate its 20th anniversary in 2021.

“We are excited to be expanding into the county seat for Webster County” said Garland Certain, CEO of United Community. “As a community-focused financial institution, we enjoy helping local people and small business owners with their banking goals and needs. We believe this location aligns well with our vision and mission to serve the people of Webster and Union counties.”

As a full-service bank, United Community Bank will offer the Dixon community in-branch services for investments, deposits and lending, as well as online and digital banking solutions. “We believe in investing in the communities we serve and offering convenience for our customers”, said Gwen Paris, President of UCB. “This is the third office in Webster County, including our Clay and Poole offices.” United Community Bank has hired five new employees for this expansion in Webster County and Lesley Ronemous will be the Dixon Office Manager.

“I am a life-long resident of Webster County and have been providing financial services for 21 years. Our UCB family enjoys partnering with local groups and clubs to ‘Make a Difference at Home’ and this expansion will help us increase our passion for serving both Webster and Union Counties.” said Lesley Ronemous.

The newly constructed office is 2,900 square feet and will be open from 8:00 am to 4:00 pm, Monday-Thursday and until 5:00 pm on Friday. Saturday hours will be 9:00 am to noon.





# One-Size Strategies Don't Fit All Situations

by Mark Roe, Executive Vice President of National Sales, JMFA

The past year has highlighted the vital role community financial institutions play in helping businesses thrive and consumers maintain their financial well-being. It has also taught us a great deal about the industry's ability to overcome difficult obstacles in order to provide valuable services and advice to keep account holders and employees safe, maintain effective work environments and keep communities up and running.

Throughout all of the uncertainty, community banks have implemented solutions to address both their specific circumstances and their customers' changing financial needs. The ability to recognize evolving conditions and make adjustments along the way reinforces our industry's resiliency and the people who make it work.

## There's Too Much at Stake for One-Size-Fits-All Solutions

As we look ahead to 2021, community banks will continue to face operational challenges, increased demands for technology and ongoing performance concerns due to the impact of the coronavirus. Likewise, many consumers will continue to experience uncertainties due to job loss or underemployment that threatens their financial security and increases their need for safe, reasonably priced products and services to address short-term liquidity needs.

With so many unknowns ahead, not implementing tailored solutions to fit your bank's situation—or the needs of your customers—can be costly in terms of operational efficiency, profitability, compliance certainty, and service quality.

## Find the Perfect Fit

For example, a customizable overdraft strategy can improve your overall results—based on your bank's specific operational and performance goals—with the following resources and support:

- *Proven program management consulting maps out an effective plan to increase revenue potential, minimize charge-offs, maintain consistent customer communication and achieve continuous program improvement.*
- *In-depth employee education—that addresses your staffing situation—reinforces consistent program understanding, strengthens employee confidence and improves service quality.*
- *Reliable compliance expertise—along with periodic updates and advice—reduces regulatory uncertainty and legal risk.*
- *Fully disclosed, consumer-friendly processes and procedures strengthen customer loyalty.*

## Build Trust with Clear, Consistent Disclosure

At the same time, a fully disclosed solution—supported by effective messaging and transparent processes—empowers customers to better manage their finances. Armed with more information, they

are aware of the option to access overdraft coverage for necessary expenses and unexpected purchases when dealing with occasional economic challenges. Plus, the right messaging and communications recommendations provide support to program users in the following ways:

- *Initial program explanation introduces customers to the benefits and responsibilities of using the program option.*
- *Ongoing communication re-educates them regarding how the program works, explains the service's value, describes the difference between available vs. actual balance, and offers other useful information and account management tips.*
- *Disclosed overdraft limits—that are reviewed periodically for adjustment—fit individual customers' situations and provide valuable peace of mind.*
- *Periodic account activity notifications address specific circumstances and reinforce your institution's commitment to better service.*

## Tailor your Solution with an Eye on Planned Growth

Financial institutions will continue to experience uncertainties that add stress to staff time and resources. Some of the most common issues include addressing sustainable revenue generation, increased competition, business activity restrictions, the pandemic's ongoing economic impact and changing customer needs.

Utilizing the recommendations and support provided by a professional overdraft consultant to implement and maintain customized program policies and procedures can reduce the burden on your staff. It is also an effective way to boost employee confidence, increase performance, strengthen compliance certainty, provide opportunities to create customer loyalty, and significantly increase your growth potential.



## ABOUT JMFA

JMFA is one of the most trusted names in the industry. Whether it's recovering lost revenue, uncovering new savings with vendor contract negotiations, creating more value, serving customers better or delivering a 100% compliant overdraft service—JMFA can help you deliver measurable results with proven solutions. To learn more, please contact your local representative or call us at (800) 809-2307.



COMPLIANCE CORNER with Timothy A. Schenk  
KBA Assistant General Counsel  
tschenk@kybanks.com

# Compliance Has Never Been More Important

Change. It is the only word I can use to describe the last two months of new rules and regulations. While we all adapt to changing processes to deal with PPP and stimulus checks, in addition to continuing traditional banking products, compliance has never been more important than it is today.

We want to share highlights of practical questions from bankers we have recently received. Please feel free to reach out to me at tschenk@kybanks.com with additional questions.

**I have a Reg E question. What if a fraudster spoofs the bank's telephone number, calls a customer and acts like bank employee, gains online banking login and password from the customer and transfers out \$2000 in four transactions of \$500 in peer-to-peer payments? Who is liable?**

This is an interesting and pertinent question given the volume and sophistication of scams taking place right now.

Some institutions may be tempted to deny this claim citing the fact that the customer provided their card number willingly. However, this situation would meet the definition of an unauthorized funds transfer as defined by the staff commentary to 1005.2(m).

Regulation E in section 1005.2(m) states that an "Unauthorized electronic fund transfer" means an electronic fund transfer from a consumer's account initiated by a person other than the consumer without actual authority to initiate the transfer and from which the consumer receives no benefit. The term does not include an electronic fund transfer initiated:

- (1) By a person who was furnished the access device to the consumer's account by the consumer, unless the consumer has notified the financial institution that transfers by that person are no longer authorized;
- (2) With fraudulent intent by the consumer or any person acting in concert with the consumer; or
- (3) By the financial institution or its employee.

Many bankers will look at section 1005.2(m)(1) and determine that customer is responsible. However, I think that is generally a mistake.

The Official Interpretation of 2(m) comment 3 states: *Access device obtained through robbery or fraud.* An unauthorized EFT includes a

transfer initiated by a person who obtained the access device from the consumer through fraud or robbery.

"Access device" is defined in section 1005.2(a)(1) as "a card, code, or other means of access to a consumer's account, or any combination thereof, that may be used by the consumer to initiate electronic fund transfers."

I think the passcode and username meet the definition of an access device.

Putting all of that together, in this case, the fraudster accessed the customer's device or "access device" (username and access code) through fraud. Consequently, the bank would most likely have to provide a provisional credit in accordance with Reg E. It is important to remember that Regulation E is generally construed in favor of the customer.

**Can we "stop payment" on our CD Interest checks, Expense checks and Loan Escrow checks (to pay escrow payments)? These are all generated in our bank and signed by bank employees.**

**For example:**

**We paid a check to a vendor with our Expense check that wasn't received and we were billed the amount past due. We placed a stop payment on that check (in less than 90 days) and reissued a check to them.**

Yes. Pursuant to KRS 355.3-312, the only checks that are not subject to "stop payment" that have the effect of law within 90 days of issue are "cashier's checks", "certified checks" and "teller's checks". Otherwise, the checks are subject to KRS 355.3-309 and there can be a "stop payment".

It is important to remember that the "terms of art" are important. Just because you know the check has adequate funds does not preclude it from a "stop payment" order.

**We have gone full circle and are back once again with the same question as to how to file our security interest on ATV's.**

**We were previously told by someone that we must perfect our security interest with the Secretary of State because the Kentucky Transportation Cabinet does not define an ATV as a "motor vehicle" and the county clerks do not have the authority to issue for certificates of title for ATV's. Is this still true?**



# *Change. It is the only word I can use to describe the last two months of new rules and regulations.*

Titling of All-Terrain Vehicles is addressed in KRS 186A.074.

Pursuant to that statute, administrative regulations have been adopted on how ATV's should be titled. Section 601 KAR 9:205 which states:

(1) The owner of an all-terrain vehicle purchased after July 1, 2010 or on which a security interest is created after July 1, 2010 shall apply for a certificate of title as follows:

(a) The applicant shall complete an Application for Kentucky Certificate of Title or Registration, TC Form 96-182, as incorporated by reference in 601 KAR 23:010.

(b) The applicant shall submit the completed form with supporting documents and a fee of fifteen (15) dollars to the county clerk of residence as established in KRS 186A.130(4).

(c) Nothing in this administrative regulation shall prevent the owner of an all-terrain vehicle purchased prior to July 1, 2010 and on which there is no security interest from applying for a certificate of title as established in this section.

Section 3 of the regulation states, "A security interest in an all-terrain vehicle shall be noted on the certificate of title as requires in KRS 186A.195."

In short, your security interest should be noted on the title. Your clerk should also be issuing titles for all terrain vehicles.

**I have heard from other bankers that their IT specialist is exempt from the Fair Labor Standards Act pay requirements. Can you clarify this for me?**

When looking for FLSA exemptions it is always a good idea to review the Department of Labor website. They summarize the exemptions as well as provide updates on enforcement questions.

For the IT exemption, there is a compensation and a duties test; both of which have to be met. The test is as follows:

## **Compensation**

The employee must be compensated either on a salary or fee basis (as defined in the regulations) at a rate not less than \$684 per week or, if compensated on an hourly basis, at a rate not less than \$27.63 an hour;

## **Duties Test**

The employee must be employed as a computer systems analyst, computer programmer, software engineer or other similarly skilled worker in the computer field performing the duties described below;

• The employee's primary duty must consist of:

1) The application of systems analysis techniques and procedures, including consulting with users, to determine hardware, software or system functional specifications;

2) The design, development, documentation, analysis, creation, testing or modification of computer systems or programs, including prototypes, based on and related to user or system design specifications;

3) The design, documentation, testing, creation or modification of computer programs related to machine operating systems; or

4) A combination of the aforementioned duties, the performance of which requires the same level of skills.

This is obviously a fact intensive determination, but as long as you can satisfy and document the compensation and duties test requirements, your personnel may be exempt from FLSA pay requirements.

# Will Banking Return to Normal, Without Returning to the Past?



by Ben Mrva, EVP, Strategic Resource Management

Now that we've closed the book on 2020, we can count on a swift change to the financial services landscape, right? The answer is yes...and no.

With the ongoing vaccine distributions and a new administration in Washington, there's even more reason to expect the new year to bring new behavior. On the other hand, conditions don't turn on a dime simply because the calendar flipped to January.

With that in mind, SRM's payments experts have identified several trends we expect to drive financial services dynamics in 2021. Although their full effect is unlikely to be visible early in the year, banks and credit unions must consider these trends in setting priorities for 2021 and beyond.

## **Anytime, Anywhere? Absolutely.**

In 2020, digital investments paid off in a big way for those financial institutions with the foresight to have laid the groundwork pre-pandemic. The task is far from complete, however. More institutions will realize that digital banking extends well beyond the selection of online and mobile solution providers and will continue to prioritize their digital strategies even in the current challenging environment.

Customers increasingly expect access to their finances anytime and anywhere. Because of this, features like single sign-on and biometric authentication will become key to enabling 24/7 access. Services such as predictive analytics to anticipate likely needs will play a growing role in the digital banking ecosystem, with open banking and API integration playing important roles in embedding such features into apps.

More institutions will also strike fintech partnerships to both leverage and neutralize big tech's incursion. Witness the growing roster of banks and credit unions of all sizes joining Google's co-branded digital initiative, Google Pay-linked checking accounts. Alliances with such behemoths carry obvious risks, but could also generate the agility needed to defend their turf against startups like Chime, which is gaining traction by providing early access payroll. Chime recently scored a coup by being the first to credit the latest round of stimulus payments- the type of perk that should be in a nimble bank's domain.

## **Recalibrating to the Post-Pandemic Consumer**

The pace of decline in branch locations can be expected to accelerate in 2021 and beyond. Throughout most of 2020, account holders have been recalibrating their banking habits towards digital channels, and their financial institutions have begun to factor in these

pandemic-related preferences in their budgets and strategic planning. Many institutions have already applied the past year's lessons to operate more efficiently with less reliance on their physical footprints. For example, many have adopted "by appointment only" models for their brick-and-mortar locations, channeling most of the traditional transactional activity to the drive-through window and remote apps.

## **How the Branch is Evolving**

This does not imply that the branch will vanish entirely, however. European banks have already made solid strides in their reinvention, recasting branches as service, sales, and advice centers. With overseas markets less reliant on physical cash and paper checks - two primary drivers of branch activity - it's logical for their institutions to be further along in the transition.

Similar trends have been underway in the US for some time, and the pandemic has accelerated many digital transformation plans. Financial service providers are likely proceeding toward a similar endgame.

Envision a "doctor's office" model for the branch of the future-whether or not by appointment, customers will visit less frequently but with more complex cases (or perhaps requesting an "annual checkup") requiring more thorough consultation.

## **The Bottom Line**

The past year has brought about some big changes for financial services, and we will continue to see the evolution of those changes moving into 2021. Digital investments will continue to be a top priority and the role of the branch will continue to evolve to better meet the demands of the community they serve.



# KBA EDUCATION ALLIANCE

## 2021 FOUNDATIONS OF BANKING SCHOOL



**Front Row (Left to Right)**  
 Danae Hallmark / First Kentucky Bank  
 Jonathon Campbell / First Southern National  
 Madison Temple / FHLB of Cincinnati

**Second Row (Left to Right)**  
 Jared Hitch / The First National Bank of Grayson  
 Brianna Cain / Hometown Bank  
 Luke Anderson / River City Bank

**Third Row (Left to Right)**  
 Thomas Zimmerman / Meade County Bank  
 Craig Felker / The Paducah Bank and Trust  
 Ashley Gray / Hometown Bank  
 Britney Coe / First Kentucky Bank, Inc

## 2021 CONSUMER LENDING SCHOOL

Proper analysis of consumer loan requests is more important today than any time in the history of banking because of the past economic environment worldwide which has left many consumers in a weaker financial condition than in the past. For this reason and the need for banks to continue growing the consumer loan portfolio safely, it is important for bankers to adjust their lending practices to insure the next consumer applicant is not becoming overextended and unable to meet their obligations.

[kybanks.com/KBA/Education](http://kybanks.com/KBA/Education)

This program introduces the consumer lending process from the initial application to closing and documentation. It will follow the "TION" Method of Consumer Lending including the following topics:

- Regulation
- Solicitation (Business Development)
- Application
- Investigation
- Evaluation
- Decision
- Documentation
- Administration

# The National Defense Authorization Act: BSA/AML Initiatives

*by Elizabeth K. Madlem, VP of Compliance Operations and  
Deputy General Counsel, Compliance Alliance (KBA Partner)*

On January 1, 2021, the Senate voted to override President Trump's veto on the National Defense Authorization Act (NDAA or Act). It was previously overridden by the House back on December 28, 2020. The NDAA included over 200 pages of significant reforms to the Bank Secrecy Act (BSA) and other anti-money laundering (AML) laws putting forth the most comprehensive set of BSA/AML reforms since the USA PATRIOT Act of 2001. A continuing question is what are the implications of this Act? How is this going to impact not only financial institutions but U.S. companies and companies doing business in the United States at large?

For starters, certain U.S. companies and companies doing business in the U.S. ("reporting companies") will be required to provide FinCEN with information regarding their beneficial owners. This includes names, addresses, date of birth, and unique identifying numbers. Newly incorporated companies will be required to do so at time of incorporation. Exempt companies include public companies, as well as companies that: (i) have more than 20 full-time employees, (ii) report more than \$5 million in yearly revenue to the Internal Revenue Service, and (iii) have an operating presence at a physical office within the United States. Changes in beneficial ownership will require reporting companies to provide FinCEN with updated information within a year. FinCEN has stated it will maintain a registry of this beneficial ownership information, but it will not be public. This does not, however, prevent FinCEN from sharing this information with federal, state, local and tribal law enforcement agencies if there is appropriate court approval. FinCEN can also share the beneficial ownership information with financial institutions for customer due diligence purposes, but only with the reporting company's consent.

Second, this NDAA creates a new whistleblower program, as well as establishes a private right of action for whistleblowers who have experienced retaliation. Aiming to incentivize reporting of BSA/AML violations, this program will award whistleblowers who give tips with as much as 30% of the monetary penalties assessed against the company if it leads to monetary penalties in excess of \$1 million. This will be dependent on the significance of the information, the degree of assistance provided, and the interest of the government in deterring BSA violations through these awards.

Additionally, a private right of action for whistleblowers who suffer retaliation will be available—whistleblowers can file complaints with the Occupational Safety and Health Administration (OSHA) where, if OSHA fails to issue a decision within 180-days, the whistleblower will be free to file a claim in federal district court.

Third, the Act considerably increases the penalties for BSA/AML violations for both companies and individuals. For repeat violations, additional civil penalties of either (i) three times the profit gained, or loss avoided (if practicable to calculate) or (ii) two times the otherwise applicable maximum penalty for the violation are now in play. A new BSA provision will allow for fines "equal to the profit gained by such person by reason" of the violation. For financial institution directors and employees, it will also include bonuses paid out the year in which the violation occurred or the following year. Those who have been determined to have engaged in "egregious" violations of BSA/AML provisions may even be barred from serving on the board of directors of a U.S. financial institution for ten years from the date of the conviction or judgment. Lastly, the Justice Department will, for the next five years, submit reports to Congress on the use of non-prosecution and deferred prosecution agreements during BSA/AML concerns.

The NDAA will also require the Treasury, in conjunction with the Justice Department and other agencies, to evaluate how it plans to streamline SAR and CTR requirements, thresholds and processes. Within one year of the NDAA's enactment, the Treasury must propose regulations to Congress to reduce burdensome requirements and adjustment thresholds accordingly, with the expectation of these threshold adjustments taking place once every five years, for the next ten years.

Fifth, the Act highlights the importance regarding law enforcement's involvement with international AML issues. FinCEN's mission requires working with foreign law enforcement authorities when it comes to safeguarding the U. S's financial system. To assist, the Treasury will be required to establish a Treasury Attachés program at U.S. embassies abroad, as well as work with international organizations including the Financial Action Task Force, International Monetary Fund, and Organization for Economic Cooperation and Development to promote global AML frameworks. Additionally, FinCEN will appoint a Foreign Financial Intelligence Unit Liaisons at U.S. embassies to engage with their foreign counterparts. Over \$60 million per year has



## *A continuing question is what are the implications of this Act? How is this going to impact not only financial institutions but U.S. companies and companies doing business in the United States at large?*

been allocated between 2020 and 2024 to the Treasury to provide technical assistance to foreign countries promoting compliance with international standards and best practices for establishing effective AML and counter-terrorist financing (CTF) programs. Additionally, the NDAA expands the ability of financial institutions to share SARs with foreign branches, subsidiaries, and affiliates, and requires the Secretary of the Treasury and FinCEN to create a pilot program to achieve this objective. Currently, financial institutions are only permitted to disclose SARs to foreign affiliates that are a “head office” or “controlling company.” This has posed as a roadblock for enterprise-wide compliance within global banks. It is important to note that the Act does prohibit participants in this pilot program from sharing SARs with branches, subsidiaries and affiliates in China, Russia, and other specific jurisdictions.

Lastly, the NDAA significantly modifies the U.S. BSA/AML program in the following areas:

- *Introduces several studies relating to (i) artificial intelligence, blockchain and other emerging technologies; (ii) beneficial ownership reporting requirements; (iii) trade-based money laundering; and (iv) money laundering by China.*
- *Modifies various definitions relative to virtual currencies and other non-traditional cash substitutes;*
- *Introduces antiquities dealers (but not art dealers) to BSA’s applicable scope;*
- *Expands ability to subpoena foreign banks’ records that maintain correspondent accounts in the U.S.;*
- *Creates a “FinCEN Exchange” to oversee voluntary public-private information sharing between law enforcement, national security agencies, and financial institutions; and*
- *Envisions a no-action letter process for FinCEN.*

Apart from these topics, the NDAA reincorporates an emphasis on risk-based approaches to AML program requirements and discusses prior proposed rulemaking from FinCEN. It even includes discussions on the Treasury being required to periodically publish on national AML and CTF initiatives.

There is no doubt that the NDAA’s initiatives will be extended over several years and will require continued efforts by both public and private sectors. The cost of these initiatives to not only the financial industry but small businesses has yet to be determined and remains a cry of protest from those against the reform. But this does appear to be the start of a more globally centric effort to combat financial terrorism and money laundering crimes.



#### ABOUT THE AUTHOR

*Elizabeth K. Madlem is the Vice President of Compliance Operations and Deputy General Counsel at Compliance Alliance. In the past, she served as both the Operations Compliance Manager and Enterprise Risk Manager for Washington Federal Bank, a \$16 billion dollar organization headquartered in Seattle, WA. She has industry expertise and real-world solutions surrounding bank-enterprise initiatives and knowledge of contract law and bank regulatory compliance.*



### *Testimonial*

*“We attended a live demonstration with Compliance Alliance and it’s been a long time since I have seen anything in the banking world that impressed me this much. We signed up immediately! Bank employees have labeled this purchase as “Christmas in July”. It appears to be a game-changer for our bank.”*

Ms. Edna H. Hughes, President/CEO  
Lewisburg Banking Company, Russellville





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