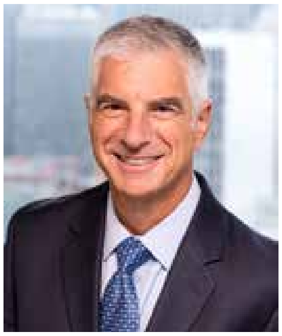
Issues & Answers

February 2021

In This Issue

Professional Education for a Changing World

By Glen Simecek, President and CEO, Washington Bankers Association



Throughout recorded history, learned thinkers have expounded on the power of education. These thoughts have come from traditional sources of inspiration, like Benjamin Franklin ("An investment in education pays the best interest"), to those who are quoted less often, like Dr. Seuss ("The more that you read, the more that you'll know; the more that you learn, the more places you'll go.")

Across the nation and around the globe, education's role in developing stronger communities is well recognized. That's why school closures have become one of the most visible and hotly debated responses to the COVID-19 pandemic.

In communities large and small, public health authorities, school officials, teachers, parents, and students have debated the best way to get kids back into their classrooms safely. In the meantime, educators have pivoted to remote instruction models to stay connected to their students and deliver instructional content.

While the reaction to the efforts of K-12 schools has been mixed, WBA members have had no such hesitation in adapting to virtual sessions to build their skillsets and propel their careers forward. The feedback we have received on our virtual education programs has exceeded our expectations. Participants recognize that in-person conferences and training programs offer some advantages that are difficult to replicate remotely, but they also appreciate being able to take advantage of these resources from the convenience of their own offices and reduce the direct cost of travel and time away from work and family.

Continued on page 2

Issues & Answers – February 2021

The official publication of the Washington Bankers Association is sponsored by Harland Clarke and WBA Professional Services

Contact Us

Contact the Washington Bankers Association at 601 Union Street, Suite 1720, Seattle, WA 98101

Call us at (206) 447-1700 and visit us on the web at www.wabankers.com.

Connect With Us

Connect with the WBA online by following us on our social media accounts.

On the Cover

An orca whale flaps its tail while the pod fishes in Puget Sound off of Vashon Island.

Photo by Megan Managan

Continued from page 1

Registration is currently open for important continuing education opportunities this spring:

- Virtual Senior Credit Conference (March 2-3)
- Virtual Marketing & Retail Conference (March 17-18)
- Virtual Emerging Leaders Conference (March 23-24)
- Virtual Credit Analyst Development Program (Beginning April 8)
- Virtual Management Development Program (Beginning April 28)

More detail on these offerings and registration information are available at www.wabankers.com/calendar. You can find information on other WBA professional development programs there, too.

A year ago, I couldn't have predicted that I'd be describing WBA events and programs taking place virtually. Then again, none of us would have foreseen all the ways our lives and patterns of behavior would be turned upside down by this virus. From the requirement to wear a mask in public to the prohibition on eating out in a restaurant, to the disruption of holiday traditions and family gatherings, to the new reality of seeing our co-workers on a screen rather than in an office, all of us have been adapting to new conditions in our work and our lives.

These disruptions have caused our members virtually overnight to find new and innovative ways to help local businesses keep their doors open. Similarly, the need for well-trained, professional, and adaptable bankers has never been greater. So, we at WBA must continue to identify what your bank needs in this environment and deliver appropriate educational content.

No one's crystal ball can give a very clear picture of what our immediate future holds. We are hopeful that WBA's fall professional development programs can return to their traditional formats, but we can't assume that will be the case. So, we are actively working with our banker committees to evaluate all options, including resuming in-person sessions, continuing with remote instruction, and hybrid delivery models.

How we ultimately move forward depends on many factors, most of which are well beyond our control, like the risks posed by new strains of the virus and the efficiency of vaccination distribution. Additionally, we recognize that our member banks will be adjusting their policies on meetings and travel as conditions change and events unfold. So please visit our website frequently for the latest updates on how you can access the educational resources you need.

For the time being, flexibility will remain everyone's watchword. Fortunately, it's a trait one develops through education.

COVID-19 Turns One: Lessons Learned from a Global Health Crisis

By Rob Nichols, President and CEO, American Bankers Association

As impossible as it is to believe, we have been living in a global pandemic for an entire year. What began as a headline from a distant corner of the world quickly became a worldwide health crisis that continues to wreak havoc on our way of life and has, unfortunately, claimed the lives of too many of our fellow citizens.

As I reflect on the last twelve months and the incredible changes that occurred virtually overnight to keep our society moving in the face of perilous uncertainty, I am filled with a deep sense of pride in how the banking industry stepped up to help make that happen. It speaks to the "can-do" spirit of America's 2 million bank employees that as the world was shutting down, as daily routines were being upended, bankers embraced their role as economic first responders and got to work extending aid that helped keep individuals and businesses afloat.

With vaccines now being rolled out to certain groups, we are anxiously awaiting the day when we can finally return to some semblance of a normal life. But achieving herd immunity from the virus will take time, and as we prepare to mark one full year of quarantines, social distancing and face coverings, I'd like to offer a few observations.

Our financial system is resilient. After the last financial crisis, banks worked diligently to increase safety and soundness and manage risk more effectively. The post-2008 reforms were intended to help banks better absorb financial shocks—and the success of those reforms was borne out in the crisis response. It was widely acknowledged, by everyone from Financial Services Committee Chairwoman Maxine Waters (D-Calif.) to Federal Reserve Chairman Jerome Powell, that banks performed well and were part of the solution to the coronavirus crisis.

Thanks to the strength of our financial system, there is reason to be hopeful for the economic recovery. In fact, the top economists at some of the nation's largest banks who serve on ABA's Economic Advisory Committee agree that we could see growth topping 4% in 2021. We must, of course, temper that expectation with the knowledge that the recovery will likely be uneven, and that labor markets could lag behind overall growth, given the massive job losses that occurred. That's why, going forward, our advocacy for pro-growth policies will be more important than ever.

The digital revolution has been rapidly accelerated. Banks were already well on their way toward digital transformation before COVID-19. But the pandemic provided a push to bank customers who may not have fully embraced digital banking to do so in earnest. That will accelerate the digital transition even further, and will surely lead to efficiencies for banks down the road. The robust digital banking landscape also bodes well for financial inclusion—the ability to remotely access banking services will enable a broader set of customers to take advantage of the full panoply of financial tools and resources at their fingertips.

The relationships with our state associations are critical. From the earliest days of the pandemic, state associations played an instrumental role in analyzing and disseminating information that bankers needed to make PPP loans, facilitate economic impact payments and continue operating amid constantly changing health and safety guidelines.

With the help of our State Association Alliance partners, we delivered free resources to ABA members and nonmembers alike—including 33 free webinars, operational aids, crisis communications toolkits, scientific analyses and more—recognizing the importance of helping all banks weather the crisis.

Through weekly calls—and sometimes daily calls—there was a continuous flow of information and feedback between ABA in Washington and all 50 states. This collaboration was vital as policymakers worked to calibrate and re-calibrate rules and regulations implementing the first CARES Act. I have no doubt that this engagement will continue now that a second stimulus has been passed and a third package could soon follow.

These are just a few takeaways from this historic period. In the years ahead, I'm sure there will be even more robust look-backs and more lessons that can be extrapolated from the coronavirus crisis. And the result of all of that learning, I hope, will only serve to make us stronger, safer and even more prepared for the future.

Industry News

New Hires

Jennifer Bolton
Senior Vice President and Senior Director of Digital Marketing at First Federal

Janet Brown
Executive Vice President and Chief Information Officer at Banner Bank

Andy Leikin
Chief Credit Officer at Liberty Bank

Rob Camandona
Vice President and Commercial Banking Officer at Peoples Bank

Kelsea Lagerway
Mortgage Loan Representative at Peoples Bank

Jennifer Spoelstra
Mortgage Loan Representative at Peoples Bank

Michael Olofsson
Vice President and Relationship Manager at Washington Trust Bank

Promotions

Anna Duncan
Vice President and Consumer Loan Manager at Baker Boyer Bank

Lacey Braswell
Vice President and Properties Manager and Executive Assistant at Baker Boyer Bank

Jessica Long
Vice President, Executive Project Manager and Senior Executive Assistant at Baker Boyer Bank

Hollina Wadsworth
Assistant Vice President and Financial Planner at Baker Boyer Bank

Tyson Romanick
Assistant Vice President and Portfolio Manager at Baker Boyer Bank

Erin Hayden
Senior Vice President and Operations Manager at First Sound Bank

Greg Hansch
Senior Vice President and Retail Banking Manager at Commencement Bank

Rosendo Guizar
Chief Credit Officer at Baker Boyer Bank

Anthony Aceto
Vice President and Branch Manager at 1st Security Bank of Washington

Mark Dresback
CEO at RiverBank

Board of Directors

Laura Alvarez Schrag
Columbia Bank

Tracy Mack-Askew
Columbia Bank

Carol Nelson
Federal Home Loan Bank of Des Moines

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

Tackle New Challenges with WBA Virtual Development Programs & Conferences in 2021

Now that the beginning of the year has come and gone, plans for 2021 are taking shape. If you are ready to tackle a new challenge this year, consider one of WBA's Development Programs or conferences to help you learn and grow.

For the first half of the year, WBA plans to offer our programs virtually, but once in-person events are again feasible, we will offer a hybrid option, allowing bankers to continue to attend events in a way that is most convenient to their situation.

Starting on April 28, we'll be offering a virtual session of the **Management Development Program**, while the virtual **Commercial Lending Development Program** will begin on April 8. Both programs are designed to help students build strong foundations in their core areas, preparing them for new responsibilities.

Many students of our 2020 virtual programs found the format to be highly effective. One MDP graduate said: "I thought the structure of the virtual classes was very well put together. The speakers of every session were extremely knowledgeable and provided great advice for up-and-coming bankers."

This spring's conferences also offer bankers a way to stay connected to the latest industry updates. On March 2-3, we will host the **Virtual Senior Credit Conference.** This event features a keynote address by FDIC Chair Jelena McWilliams, as well as ABA's Dan Martini with an update on the latest round of PPP, including what banks need to know going forward through 2021 about the program, and other SBA programs.

The first-ever joint **Virtual Marketing & Retail Conference** will be held March 17-18, featuring a keynote session by nationally recognized Jill Castilla on how she revived Citizens Bank of Edmond in Oklahoma. Amber Farley, with Financial Marketing Solutions, will speak on social media, while Joe Micallef will discuss ways banks can engage their customers during difficult times. The conference also features breakout sessions specifically created for marketers and retail bankers.

The **Virtual Emerging Leaders Conference** will be held on March 23-24, focusing on leadership and ways emerging leaders can not only stay engaged with their peers, and direct reports, but ways to lead in a virtual environment.

The **2021 Annual Bankers Convention** will be held with the Oregon Bankers Association July 14-16.

In the fall, bankers can choose from the **Credit Analyst Development Program** or the **Retail Branch Manager Development Program**. The **Northwest Agriculture Conference**, **Northwest Compliance Conference**, **Women in Banking Conference**, and **Bank Executive Conference** are also slated for fall and early winter.

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

Events Calendar

March 2-3 – Virtual Senior Credit Conference
March 17-18 – Virtual Marketing & Retail Conference
March 23-24 – Virtual Emerging Leaders Conference
April 8 – Virtual Commercial Lending Development Program
April 28 – Virtual Management Development Program
May – Virtual Education/Human Resources Conference
July 14-16 – 2021 OBA/WBA Bankers Convention

**Classes and conferences will be virtual unless otherwise noted.*
To register or to learn more about any of the listed events, please visit www.wabankers.com.

Creating Innovation – A Post-Pandemic Imperative

By Joe Sullivan, CEO Market Insights

Nearly every banker I've spoken with in the past few months has posed the same basic question: What's next? With the promise that the pandemic will eventually be behind us, everyone is trying to predict the "next normal" and imagine if they have what it will take to succeed – or even survive – in a post-pandemic economy.

Obviously, there are many factors that will determine the answer to those questions. But if you pay attention to some of our industry's favorite buzzwords, there are many characteristics that bankers will have to master to succeed. Agility. Adaptability. Empathy. I'd say yes to each one. But the core competency that will be critical for every bank's long-term survival is a familiar term: innovation.

I know what you're thinking. Innovation has always been key to sustained success. Yes, that's true. But if you don't count big banks and fintechs, you'd rarely find banks on the list of the most innovative companies. Admittedly, this past year saw banks of every size innovate quickly to meet the crisis brought about by the pandemic. And while many banks can point to instances where operational efficiencies were achieved or new ideas were implemented, it is important to remember that these innovations were not routine – and they were not always enterprise-wide. Too often, innovation is seen as a short-term assignment rather than a long-term mindset.

Moreover, banks usually equate the term innovation with technology and digital transformation. You may consider yourself innovative if, as an example, you brought in ITMs before your closest competitor or armed your personal bankers with iPads. But innovation must reach way beyond technology. Future success in financial services will require innovation in all areas: customer experience, staffing, remote work, marketing, even business models will need to evolve. Our industry could learn from former Starbucks CEO, Howard Schultz who said "innovation must be disruptive. And by disruptive, I mean disruptive. You gotta fracture and break the rules." Let's face it, banking has a lot of rules.

But why is innovation so critical now? The answer is found at the intersection of at least three trend lines: humanity, diversity, and technology. Let me explain.

Humanity – I use the word humanity to express the idea that innovation becomes critical as shifts in human needs and human behaviors continue to accelerate. The pandemic and the subsequent recession have prompted changes in human needs on physiological, socioeconomic, and psychological levels. Social isolation, unemployment, and economic uncertainty influence most financial decisions – from daily to long-term. Will the 25-year-old customer need a car loan? Will the 65-year-old be able to retire?

Think for a moment about how the pandemic caused customers to quickly adopt the digital and mobile behaviors that bankers have been promoting for years. Early indications are that customers have assimilated these new behaviors well and they've done it long enough now that new long-term habits are being formed. According to a 2009 study published in Psychology Today, the average length of time required for a new behavior to become a habit is 66 days. The pandemic has gone on for nearly a year and your customers have been making deposits with their mobile app, paying bills online, applying for loans without entering a branch. They have been using your drive-through and other self-service options on their terms, often 24/7. What makes you think they will return to pre-pandemic ways of banking?

Depending on your community, it may take some time before the profile of your average customer returns to pre-pandemic levels. And regardless of demographic profile or degree of affluence, the pandemic has influenced perceptions about convenience, health, safety, and simplicity, and consumer needs and behaviors will be in flux for months, if not years, to come. Will your institution be able to adjust products and customer experience to align with those new needs and behaviors? When was the last time you connected with your customers and sought their input in the product development lifecycle? A bank's ability to provide contextual, personalized, and relevant products and services will require more than collecting Net Promoter Scores and attempting infrequent improvement.

Diversity – both inherent (ethnicity, gender, etc.) and acquired (life/professional experience) – unlocks innovation by creating an environ-

Continued on page 11

WBA Member News

Washington Trust Bank Partners with Local Organizations for Donations in December

Each December, Washington Trust Bank partners with several local organizations to help make the holiday season brighter for residents.

Typically, the bank works with local Christmas tree farms to host a Christmas Tree Giveaway. This year, due to the pandemic, the program shifted, and the bank supported Hopkins Evergreens, allowing the company to surprise 100 lucky customers with free trees during the holiday season.

The bank also donated $5,000 to Christmas Bureau Spokane to help with their fundraising efforts. The organization offers holiday assistance to provide toys, books, and grocery store vouchers for families in need. In 2020, the organization was able to serve 8,300 households, over 30,800 people and distributed more than $210,000 in grocery vouchers.

Commencement Bank Donates to Toy Rescue Mission

Instead of Commencement Bank's annual holiday celebration, each department within the bank picked a local charitable organization to support due to increased need during the holiday season.

The cash management group picked Toy Rescue Mission and provided toys. The organization was in major need of toys for local kids during the holidays.

KeyBank 'Assists' Donates to Local Community

As part of KeyBank's continued outreach to local businesses and communities impacted by COVID-19, KeyBank Assists program distributed over $340,000 to local small businesses, non-profits, and families nationally, and in the greater Seattle area.

In Seattle, the bank worked with Mariner's outfielder Kyle Lewis, to make a $12,500 donation to the University District League Food Bank, as well as a $10,000 to Friends of Children Seattle and $50 gift cards to customers of small businesses around the city in early December.

"Our goal was to help positively impact all parts of the community, and it was fun to support a diverse group of businesses across the areas we serve," said KeyBank Seattle Cascades Market President, Matt Hill.

1st Security Bank Donates to South Puget Sound Habitat for Humanity

In late 2020, 1st Security Bank of Washington announced a donation of $30,000 to South Puget Sound Habitat for Humanity.

Monica Beckley, AVP, and training specialist at 1st Security said "As a board member...this is huge and helps so many families. As an employee of 1st Security Bank, this makes me so happy to support our community."

Seattle Bank Donates to Downtown Seattle Association

At the end of 2020, Seattle Bank announced it would be making a $25,000 donation to the Downtown Seattle Association's Outreach Team.

This team works with people experiencing homelessness and helps connect them with services, housing, treatment, and employment options to bring greater safety and stability to their lives.

Columbia Bank Raises Over $300,000 During 6th Annual Warm Hearts Winter Drive

In early 2021, Columbia Bank announced that the sixth annual Warm Hearts Winter Drive to help families and individuals struggling with homelessness raised $315,025.

Customers, employees, and business partners throughout the Northwest also donated thousands of winter wear items and supplies to benefits more than 65 homeless and relief shelters.

Since 2015, the bank has raised nearly $1.5 million in combined donations. All clothing and funds collected are

Continued on page 7

Continued from page 6

donated directly to shelters and relief organizations.

"In a year made particularly difficult by the pandemic, the Warm Hearts Winter Drive was as important as ever," said Clint Stein, Columbia Bank's CEO. "I could not be prouder of the way our bankers and people across the Northwest stepped up to help their neighbors."

First Sound Bank Donates to Food Lifeline

In late December, First Sound Bank arranged pickup of food donations for Food Lifeline.

The bank helped gather donations of shelf-stable foods like baby products, cleaning supplies, personal health care, and pet food, to help those in need over the holidays.

Between First Sound Bank and three other stops the Food Lifeline van made, the organization picked up nearly 2,000 pounds in donations.

Washington Trust Bank Donates to Extend the Love Campaign

In early January, Washington Trust Bank announced a $12,000 donation to the Extend the Love campaign, which helps 12 local restaurants provide fresh meals to community members in need, distributed through Women's & Children's Free Restaurant.

Mountain Pacific Bank Donates to Local Food Banks

To help local food banks throughout Mountain Pacific Bank's footprint, the bank's branches hosted a food drive at the end of 2020.

In total, the bank collected 989 nonperishable food items and received $1,113 in donations.

"Thank you to all the hunger heroes who donated and participated to make our food drive a success; we are stronger with you!" said the bank.

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

How COVID-19 Has Affected the Auto and Auto Finance Industries

The pandemic has already had a significant effect on the auto and auto finance industry, and we'll continue to see this play out. For example, social distancing guidelines mean consumers currently spend less time on dealership lots and more time online on third-party and contactless vehicle delivery sites. Many see car ownership as a safer alternative to public transportation. While it's true that some consumers are struggling in the midst of job loss due to pandemic conditions, others are sitting on cash as they save more to weather economic uncertainty. As the Fed takes action on interest rates to shore up the economy through the pandemic, financial institutions and dealerships have to adjust their marketing accordingly.

Negative equity has surged to an average $5,571. We can see the evidence of this surge in the record number of zero percent financing deals closed, which account for a whopping 26 percent of all dealership-financed new vehicle purchases. In addition, the share of new sales of trade-ins with negative equity rose to 44 percent. Financial institutions should be prepared to respond to this and any other realities presented by the pandemic.

What to expect post-recession

Used car values typically decline during a recession. We expect to see that again, and that the pandemic will exacerbate this decline. However, post-recession, as the economy rebounds, consumers will likely seek out used vehicles as a more affordable alternative to new vehicle purchases.

Though 28 percent of consumers have delayed their vehicle purchases as a result of COVID-19, that means that 72 percent might still be shopping. And in a phenomenon specific to the pandemic, for example, some consumers are purchasing "COVID cars," as an alternative to what they see as "risky" public transportation or as a means to escape town for short getaways nearby.

Americans younger than 45 years old took out $38.1 billion in auto debt, compared with the $13.3 billion auto debt of older generations. The average FICO score for all consumers with an auto loan is 705 as of year-end 2019.

No longer reserved for "ultra-green" consumers, alternative power vehicles (APV), including hybrid and fully electric vehicles, represent a growing opportunity for lenders. Sales in the traditional hybrid segment are expected to grow 18 percent. Hybrid and electric light vehicles currently account for 3.5 percent of new registrations, and by 2020, there will be more than 600 battery electric vehicle and hybrid electric vehicle models available globally.

All-electric and plug-in hybrid vehicles may qualify for a federal income tax credit of up to $7,500 in addition to the purchase incentives offered by nearly half of states for these vehicles. Lenders should consider directly marketing to those consumers most likely to be in the market for APVs, for example, featuring these vehicles in their advertising or developing special offers for those who wish to purchase them.

How do consumers shop for cars these days?

Gone are the days of visiting dealerships and roaming the lot while chatting it up with salespeople. Even before COVID hit, consumers were turning to the convenience of the Internet for vehicle research and recommendations before purchasing. In fact, 55 percent of shoppers now prefer not to visit the physical dealership. Buyers these days spend 59 percent of their time researching online.

Consumers tend to prefer third-party sites for car shopping — 80 percent of all vehicle buyers visit them at some point during the shopping process. Recognizing this trend, automakers have invested heavily in a digital retailing strategy in recent years.

While they may not walk the lots as much, vehicle buyers still appreciate the test-driving process offered by dealerships. When asked to rate their satisfaction on a scale of 1-10, 81 percent gave the test-driving process an 8-10 rating. But when it comes to the captive finance process, they're not as keen — satisfaction declined to 67 percent when interactions with the finance and insurance department were factored in.

Opportunities for financial institutions

Armed with an understanding of the auto loan environment, the question is how can financial institutions take advantage of current auto trends and prepare for future auto trends? We offer nine ways financial institution lenders can reach today's consumers and deliver what they need.

1. Offer preapprovals early (and often)

By the time an auto shopper visits a dealership, they are likely to have conducted an average of 13-14 hours of research, spending fewer days in the market for a vehicle. Consider this: more than 61 percent of new car financing is done through vehicle manufacturer or dealership "captive" financing deals, while used car financing is dominated by banks with just nine percent of used car loans coming from captive financing.

If financial institutions are going to capture those prospects, they must reach shoppers early in their research phase before they visit a dealer and become susceptible to manufacturer or dealer financing options.

Proactive, pre-approved auto loan offers to customers delivered in a multichannel campaign not only help ensure your offer is top-of-mind the moment customers need an auto loan, they also create a positive customer experience.

2. Maximize digital branding and offer awareness campaigns

Marketers can now identify likely auto buyers early in their research phase by their internet browsing behavior and physical location. Third-party sites are the most-used for car shopping (and many allow ads!), and 80 percent of all car buyers visit them during the shopping process. Car buyers do not enjoy the finance part of buying a car at a dealership, so promote the benefits of taking care of this in advance. Brand yourself as a trusted provider of an easy auto loan process.

Continued on page 9

Continued from page 8

3. Engage trigger-based pre-approvals

There's no better indication of intent than a customer requesting to have their credit run for a new auto loan. Auto shoppers at this stage may also get pre-approved to find out how much they can afford to spend, giving you an opportunity to win their business. But it's essential to catch them quickly, before the loan is originated elsewhere. A proactive contact center phone call can help ensure you reach the customer with your offer in time to be considered.

4. Offer education

GenY and Millennials value companies that offer educational resources that help them make smart financial decisions. Helping them understand the ins and outs of vehicle financing will help position your institution as a top-of-mind favorite when it comes time to signing on the dotted line.

5. Ensure a positive digital experience

Customer experience is huge for the growing Millennial and Gen Y segment. Online and mobile auto loan applications that are entirely digital and optimized for customer experience are essential to capture more loans from this consumer segment. What should this experience look like? Think intuitive, helpful use of auto-fill, conditional fields based on previously entered information, data validation that ensures correct and accurate application information and digital capture of drivers licenses and other documentation for paperless experience, for starters.

6. Utilize quick decisioning for auto loans

Quick decisioning automatically qualifies applications with exceptional credit scores and offers the best terms to those customers. It also automatically declines applicants whose attributes indicate they are a high risk or do not meet your credit guidelines. You can even automatically structure loan offers by modifying the loan terms to present other acceptable deals if an applicant initially falls short of your credit criteria, by offering lower loan amounts, shorter loan terms, etc.

7. Use alternative credit data

Verify financial strength for those who are too young to have established stellar credit scores but are low credit risks by examining their record of rental, utility and other payments, employment history and stable address history, for example.

8. Use auto refinance as a tool to build goodwill with customers and deepen relationships

Car buyers who got their initial loan from a dealer are often paying higher rates than with banks. Even indirect loans through traditional lenders charge slightly higher rates to compensate the dealer. Let customers know that they have options, even after their initial finance deal. When rates have decreased, customers can save money with a lower payment. When a customer's credit score has improved they may qualify for more favorable terms.

Consumers with long loan terms can restructure to a shorter term and avoid owing more than their car is worth. You may have loyalty programs that offer benefits for more product ownership.

9. Continue marketing after the deal is closed

While the average new car buyer expects to be in a car for six to eight years and the average age of cars on the road is 11 years, financial institutions should market to the auto loan holder even after the deal is done. Remember, auto loan holders are likely to need other loan products and credit cards. Continuously and proactively market other pre-approved offers to them.

They will consider their experience with your institution on the auto loan an indicator of the experience they'll have with you on other loans.

Financial institutions should continue to provide loan education, especially to Millennials and GenerationY. Start early mortgage loan education, optimizing their credit score for a mortgage, financially planning to buy a home, saving for a down payment, etc., as many will be in the market for mortgage loans in the future and will look to you as a trusted provider who wants to help them achieve their goals responsibly, experience, financial institutions can position themselves to become the go-to resource for consumers in the market for an auto loan.

Reform for AML and BSA is on the Horizon

By Steve Manderscheid, Compliance Officer, Compliance Alliance

When Congress pushed through the National Defense Authorization Act for fiscal year 2021, the banking industry breathed a sigh of relief with the glimmer of hope for the potential elimination of excessive regulatory burdens under the Bank Secrecy Act.

The reason for hope is the section within the legislation dedicated solely to improvements to anti-money laundering rules.

This changes include improving coordination and information sharing among the agencies tasked with administering anti-money laundering and countering the financing of terrorism requirements, the agencies that examine financial institutions for compliance with those requirements, federal law enforcement agencies, national security agencies, the intelligence community, and financial institutions. Modernizing anti-money laundering and countering the financing of terrorism laws to adapt the government and private sector response to new and emerging threats. Encourage technological innovation and the adoption of new technology by financial institutions to more effectively counter money laundering and the financing of terrorism; reinforce that the anti-money laundering and countering the financing of terrorism policies, procedures, and controls of financial institutions shall be risk-based.

Establish uniform beneficial ownership information reporting requirements to:

- Improve transparency for national security, intelligence, and law enforcement agencies and financial institutions concerning corporate structures and insight into the flow of illicit funds through those structures;
- Discourage the use of shell corporations as a tool to disguise and move illicit funds;
- Assist national security, intelligence, and law enforcement agencies with the pursuit of crimes; and
- Protect the national security of the United States; and establish a secure, nonpublic database at FinCEN for beneficial ownership information.

The main purpose of this immense undertaking will continue to focus on safeguarding the United States financial system and those financial institutions that make up that system from the abuse of money laundering, terrorist financing, and other illicit financial crimes.

Today, banks must develop and implement an effective risk-based AML program consistent with rules that transcend roughly fifty (50) years of banking. Over that period of time many things have changed, especially the recent digital innovations relating to how consumers interact and conduct their banking and transactions. Unfortunately, the same cannot be said for the regulatory burden to file reports under archaic and arbitrary thresholds.

COMPLIANCE ALLIANCE

Under the current BSA Currency Transaction Reports (CTRs) requirements (not considering exemptions as they are a burden unto themselves), financial institutions must report currency transactions over $10,000 conducted by, or on behalf of, one person, as well as multiple currency transactions that aggregate to be over $10,000 in a single day.

In addition to filing CTRs, the industry must report suspicious activity under the following thresholds:

- Criminal violations involving insider abuse in any amount.
- Criminal violations aggregating $5,000 or more when a suspect can be identified.
- Criminal violations aggregating $25,000 or more regardless of a potential suspect. Transactions conducted or attempted by, at, or through the bank (or an affiliate) and aggregating $5,000 or more, if the bank or affiliate knows, suspects, or has reason to suspect that the transaction involves money laundering or other illegal activity, evades the BSA or has no business or a parent lawful purpose.

Under the current legislation, the Treasury Department is to undergo a formal review of these current arbitrary thresholds established for filing CTRs and Suspicious Activity Reports (SARs), including the review of Thresholds for Certain Currency Transaction Reports and Suspicious Activity Reports.

The Secretary, in consultation with the Attorney General, the Director of National Intelligence, the Secretary of Homeland Security, the Federal functional regulators, State bank supervisors, State credit union supervisors, and other relevant stakeholders, shall review and determine whether the dollar thresholds, including aggregate thresholds, under sections 5313, 5318(g), and 5331 of title 31, United States Code, including regulations issued under those sections, should be adjusted.

In making the determinations required under subsection (a), the Secretary, in consultation with the Attorney General, the Director of National Intelligence, the Secretary of Homeland Security, the Federal functional regulators, State bank supervisors, State credit union supervisors, and other relevant stakeholders, shall rely substantially on information obtained through the BSA Data Value Analysis Project conducted by FinCEN and on information obtained through the Currency Transaction Report analyses conducted by the Comptroller General of the United States; and consider:

- The effects that adjusting the thresholds would have on law enforce-

Continued on page 11

Continued from page 10

ment, intelligence, national security, and homeland security agencies;

- The costs likely to be incurred or saved by financial institutions from any adjustment to the thresholds;
- Whether adjusting the thresholds would better conform the United States with international norms and standards to counter money laundering and the financing of terrorism;
- Whether currency transaction report thresholds should be tied to inflation or otherwise, be adjusted based on other factors consistent with the purposes of the Bank Secrecy Act;
- Any other matter that the Secretary determines is appropriate.

Not later than 1 year after the date of enactment of this Act, the Secretary, in consultation with the Attorney General, the Director of National Intelligence, the Secretary of Homeland Security, the Federal functional regulators, State bank supervisors, State credit union supervisors, and other relevant stakeholders, shall publish a report of the findings from the review required under subsection (a); and propose rulemakings, as appropriate, to implement the findings and determinations described in paragraph (1).

Not less frequently than once every 5 years during the 10-year period beginning on the date of enactment of this Act, the Secretary shall:

- Evaluate findings and rulemakings described in subsection (c); and
- Transmit a written summary of the evaluation to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate; and
- Propose rulemakings, as appropriate, in response to the evaluation required under paragraph (1).

How will all this play out? Well, we'll have to wait and see. Hopefully, an increase in the reporting thresholds will bring some semblance of actual tangible benefits to financial institutions being burdened under the current BSA regulatory reporting structure.

Steve Manderscheid is a compliance officer for Compliance Alliance and brings over 25 years of financial industry experience to the team. Previously, he focused on all aspects of regulatory compliance risk management while also serving in a Bank Secrecy Act officer capacity. In recent years, he has ventured into leadership roles in enterprise-wide risk management (ERM), complaint management, and vendor and third-party relationships. In his role as compliance officer, Steve brings all of his experience to completing reviews, and working on developing tools, training materials, and training events for our members. Recently, he's started expanding his educational role and has become the main presenter of our popular C/A Minute videos.

Continued from page 5

ment where different opinions can be expressed, and new ideas pursued. Diversity enhances creativity. It provides different perspectives and promotes better problem-solving. Diversity helps banks become much more dynamic and able to understand their customer base. Research from Harvard Business School found that a team with a member who shares a customer's ethnicity is 152 percent likelier than another team member to understand that customer.

Technology – Rapidly maturing digital technology will keep pushing the industry forward. The rapid improvements in artificial intelligence for fraud detection, credit risk modeling, etc. will reinvent how banks operate and how bankers spend their time. Enhancements to mobile technologies and the expansion of 5G networks will compel banks to find newer, faster ways to bring mobile updates to market. Open banking and blockchain integration will restructure the banking landscape. These are just a few examples of how technology will shape future innovation.

Netflix is a perfect example of a company that discovered customer-focused innovation at the intersection of humanity, diversity, and technology. As the pandemic hit and shelter-in-place orders were issued, people were looking for entertainment and escapism to get through the early days of the pandemic. They were already in a strong position to meet that need, but they quickly adjusted marketing, repurposed content, and added more original programming for streaming. Early in the crisis, they launched a $100 million coronavirus relief fund for out-of-work creatives to help ensure their content pipeline. As subscription numbers grew, they adjusted their technological capacity to meet demand and made news when they announced plans (at the height of civil unrest in the US) to put up to $100 million toward financial institutions and other groups that directly support Black communities in the U.S. It is no surprise they were among BCG's list of the Most Innovative Companies of 2020.

In the past 23 years, Netflix has gained nearly 200 million subscribers in 190 countries. That growth is directly attributed to their innovation-oriented culture of reinvention. So how can your bank become more like Netflix? Start by creating an innovation culture. When you elevate innovation to the status of a core value – an organizing principle for your bank – you begin to change the outlook and culture of your organization, and you transform the conversation in your board room and your break room.

As you begin to consider your institution's capacity for innovation, take an honest look at how your current culture reflects these four characteristics:

- Innovative cultures encourage autonomy. From day one, Netflix focused the culture on employee empowerment and independence. The typical banking leadership style of command-and-control is difficult enough with five generations in the workforce and a talent crisis on the way and is certainly less viable in the work-from-home era. Let go of the reins and create an environment where individuals and cross-departmental teams have the freedom to express ideas, experiment, and make decisions. Try identifying one customer-facing problem and give 3-5 people a budget and a deadline and then get out of their way.
- Innovative cultures also foster alternative solutions. You have likely heard the old saying that the definition of insanity is doing the same thing and expecting a different result. That thinking is the antithesis of innovation, and unfortunately, it is alive and well in banking – but it doesn't have to be. Tried and tested practices may feel safer, and trusted partners feel comfortable. But new solutions are often found by exploring new approaches and engaging new partners. When was the last time you asked a front-line employee, rather than a senior manager, how they would solve a particular problem?
- Innovative cultures give people permission to fail. Your team members will try new things when they know that they will not be fired or reprimanded for giving something a try. Once again, Netflix offers an interesting example. When an employee makes a mistake, they are encouraged to let it be known so fellow employees can learn from the errors and new ideas can be stimulated. Permission to fail allows employees to step outside of their comfort zones, take more risks, and bring forth an innovative idea.
- Innovative cultures promote action. Decisions need to be made quickly and the right actions (based on data, customer feedback, analytics, etc.) must be taken, acknowledged, and celebrated. Fast and effective decision-making structures exist, and fast and efficient communication supports implementation.

A recent report from Accenture noted "Yesterday's expectations for innovation are out the window. Even though the stakes for innovation in banking were rising even before the coronavirus arrived, now a true culture of innovation is a matter of survival through, and beyond, the pandemic."

I've used Netflix as an example of an innovative company, but there are leaders in our industry who have focused their banks on finding innovative solutions for their customers. And it isn't just the large national and regional banks. Take the time to learn about institutions like Cross River Bank in New Jersey and discover how they reinvented themselves and deployed APIs to originate loans for Affirm or Rocket Mortgage. Or discover the innovative leadership at Citizens Bank in Oklahoma, which partnered with Shark Tank's Mark Cuban to create the nation's first bank exclusively to originate and fund PPP loans for businesses across the country.

As you take the time to consider your own institution's capacity for innovation, ask yourself "Do I have it in me?" Innovation requires fearless leadership that doesn't use legacy technology as an excuse for maintaining the status quo. The pandemic has created an opportunity to break the inertia that has kept innovation from flourishing. Now is the time to commit to innovation and begin the work of reinventing your institution. I'll admit, some consumers will return to pre-pandemic behaviors, and so will some banks. But given the changes we've already seen, I'm confident that banking will continue to evolve as consumers demand more innovation.

Joe Sullivan is CEO and founder of Seattle-based Market Insights, a consultancy with expertise in strategic planning, delivery optimization, culture transformation, and leadership coaching. He can be reached at jsullivan@formarketinsights.com or @mi_twitter.

Americans are happy with their bank ...

9 in 10
account holders are "very satisfied" or "satisfied" with their primary bank

96%
rate their bank's customer service as "excellent," "very good," or "good"

... and appreciate how banks have responded to COVID-19

3 in 4

- rate the banking industry's response as "excellent" or "good"
- are "very satisfied" or "satisfied" with their bank's response

THANK YOU!

12%
have utilized a financial assistance program offered by their bank during the pandemic

83%
of those aware of their bank's assistance options during the pandemic now view their bank more favorably

American Bankers Association.

Source: Morning Consult, Morning Consult, on behalf of American Bankers Association, conducted an online survey of 2,200 U.S. adults from Oct. 1-2, 2020.

National Survey: Americans Remain Highly Satisfied with Their Bank, Appreciate Response to Pandemic

Nine in 10 Americans with a bank account (89 percent) say they are "very satisfied" or "satisfied" with their primary bank, and 96 percent rate their bank's customer service as "excellent," "very good" or "good," according to a new survey conducted by Morning Consult on behalf of the American Bankers Association.

The survey, conducted last fall, also gauged consumers' awareness and perception of banks' performance throughout the COVID-19 pandemic. It found that 3 in 4 U.S. adults approve of their bank's response to COVID-19 – as well as the industry's overall response to the pandemic, which has so far included unprecedented customer relief options for those directly affected, the timely and efficient processing of more than $270 billion in government Economic Impact Payments, and the delivery of more than $500 billion in SBA Paycheck Protection Program loans for struggling small businesses.

"Banks have worked day and night to help businesses and individual customers affected by this public health crisis, and this new survey shows that their efforts have not gone unnoticed," said Rob Nichols, ABA president and CEO. "Whether it's waiving fees, modifying loan terms, or burning the midnight oil to ensure that small businesses around the country got the loans they needed to retain their employees, banks have gone the extra mile to help their customers and communities weather this ongoing storm."

More than one-third of U.S. adults (36%) were aware of their bank's programs to assist customers experiencing financial hardship, and one-third of those individuals (34% – or 12% of all U.S. adults) have utilized at least one of those programs. A large majority of consumers (83%) who were aware of their bank's assistance options during the pandemic now have a more favorable opinion of their bank, according to the survey.