

Issues & Answers



July 2021

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Amidst the COVID-19
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Pandemic Receding, But Impacts Will Linger In Our Economy



*By Glen Simecek,
President and CEO,
Washington Bankers Association*

We all recognize that history, and especially economic history, runs in cycles. How often have you heard the maxim that “those who don’t study

history are doomed to repeat it”? While this crisis has been similar to others in the past, it has also brought entirely new challenges we must grapple with.

With that in mind, let’s indulge in a quick history of economic recessions and recoveries. The National Bureau of Economic Research (NBER), a nonprofit research organization, defines a recession as a significant decline in economic activity for more than two consecutive quarters, normally indicated by drops in real GDP, real income, employment, industrial output, and wholesale or

retail sales.

The NBER identifies 15 separate recessions since the Great Depression that began with the stock market crash in 1929. These include oil price-induced downturns in the 1970s, 1980s, and 1990s; the dot.com implosion of the early 2000s; and, of course, the housing bubble Great Recession of 2007-2009.

Now, with the economy rebounding from COVID-related economic shutdowns, we ask ourselves what can we learn from these past experiences – and especially from the most recent Great Recession and our subsequent recovery.

The COVID recession began in the first quarter of last year and its impact was felt quickly, widely, and deeply. More than 24 million Americans lost their jobs in just three weeks. GDP dropped by an estimated 9 percent, nearly double the 5.1 percent drop seen in the housing collapse recession. Similarly, unemployment peaked at more than 14 percent, fully 40 percent higher than the 10

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On the Cover

The American flag flaps in the wind as the sun sets behind Camano Island, as seen from Tulare Beach in Marysville.

Photo by Megan Managan

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percent peak unemployment rate seen in 2008.

In other words, the COVID recession has been, by virtually any measure, the deepest since the Great Depression of the 1930s.

There are indications that our recovery from this downturn will be relatively rapid, and the economy will emerge even stronger. However, trends from throughout the pandemic are likely to stay with us for the long term.

The COVID recession has caused bankers and their customers to reexamine how they do business. More employees have been working remotely and more customers have finally embraced mobile banking platforms. As offices reopen, many will find that the workplace has forever changed. The labor market has also been upended as some workers decide to retire earlier than planned, or for other reasons, choose not to return. For some, the work/family dynamic has tipped more toward family, and being in the office 40 hours or more no longer holds the same appeal. Employers are struggling to meet the requirements of this workforce as they embrace some of the changes realized by the pandemic.

The role of government has also changed. A new administration with a very different perspective on the role of government came into office during a crisis, and lessons learned about what worked and what didn't will last a lifetime. Similarly, advocates of increased government mandates, rent control, and increased oversight, gained traction and will be loath to give up those gains.

Despite these lingering uncertainties, closer to home good news can be found in the most recent update to the state's revenue forecast, which projects revenues for the 2021-23 biennium to be \$2.6 billion higher than forecast in March and now exceed pre-pandemic levels.

So, what should WBA member banks keep in mind when they think about the recovery currently underway? Most importantly, they should recognize key differences between the current situation and the challenges faced in 2007-2009.

Banks have remained strong and well-capitalized through the pandemic crisis. There have been no bank failures, forced mergers, TARP asset designations, or public concerns regarding safety and soundness. Instead, banks have again demonstrated the value they bring to their customers and their communities by restructuring credits, waiving fees, and making philanthropic investments to help address the impacts of the pandemic.

Another big difference in this recession is that federal stimulus payments have pumped billions into the economy. These dollars have helped some customers stave off delinquencies and allowed others to boost their savings.

Next, the Fed has repeatedly signaled its intention to keep interest rates low, which until recently, did not spark a rise in inflation. Attractive rates have contributed to a surge in mortgage and refinancing activity. Combined with tighter underwriting standards put in place as a result of the housing bubble of the early 2000s, this demand has created profitable new business opportunities for many banks.

Our industry will continue to adapt and serve the needs of its customers and communities, a story we must continue to share. Part of that adaptation must include training and motivating our employees in new ways including flexibility to work where and how they wish. We heard from several HR consultants recently who spoke of the need to educate and invest in employees and to remember that we are competing for talent nationally and outside of the banking industry, particularly for people with the analytical and interpersonal skills that bankers are known for. What we do to help families and businesses succeed is also incredibly rewarding for the right people.

The past year has been different for all of us, and our recovery will be different than we've seen in prior recessions. Perhaps the parallel to the axiom at the beginning of this column is that those who take the time to learn from history need not repeat it but instead can move forward.

Banker Spotlight: Betsy Cadwallader

Periodically we profile a Washington banker. If you have a banker you would like to spotlight, please contact Megan Managan at megan@wabankers.com.

How did you get started in the banking business?

I joined the banking industry following an intern opportunity with Fifth Third Bank the summer before my senior year at Miami University. I completed my bachelor of science degree in finance from there and later earned my MBA in finance from the University of Cincinnati. Over the course of my career, I've worked in client relationship management, credit risk management, capital markets origination and product execution, as well as subordinated debt and equity principal investing.

In 2017, I relocated to Seattle from Chicago – where I was the U.S. Bank chief credit officer for commercial banking – to take on a regional leadership role, the fifth largest commercial bank in the U.S. Today, I am the metro market president and regional head of commercial banking in the Pacific Northwest, which includes Puget Sound, Portland, San Francisco and Sacramento. I am also a commercial banking regional leader for metro markets in Nevada, Arizona, Utah and Colorado.

What advice would you give to someone who is considering a career in banking today?

Banking, today, is increasingly complex and provides broad and diverse career options, spanning many different disciplines, lines of business, and geographies. As bankers, we are deeply engaged in the communities in which we live and work – it's a career that provides opportunities for an investment of personal time and treasure. Banking requires a curious mind and an interest in providing financial management and wealth solutions to consumers and business enterprises.

Has your leadership approach changed/adapted because of the pandemic and the nature of virtual work? If so, how?

2020 has been an extraordinary year for everyone. One of my roles has been keeping the people around me positively focused while we are all working from home in an unparalleled way. To do that, I've had to be flexible and recognize that we all have to adjust. If anything, the past year has made me more empathetic.

Your role recently expanded. How do you connect with/lead teams located across states and time zones when traveling has been limited?

The commercial banking team at U.S. Bank is a very close group. Before my geographic responsibilities were expanded to include much of the West, I worked closely with commercial banking leaders nationwide – so I have established well-regarded relationships. This is helpful in my new role.



Day Job: Metro Market President and Regional Head of Commercial Banking at U.S. Bank

Success is: Success is being present to win – I believe that just like all raffles, you have to be present to win; when you show up every day, good things invariably happen.

Defining Life Moment: One of my defining life moments was joining U.S. Bank in Seattle – this is a very healthy, optimistic, energizing place to live.

Thanks to the way we work at U.S. Bank, time zones are not really an issue. What's new is that we've all learned to meet virtually. Cutting out travel actually has made me more productive on a certain level because I haven't had to manage around travel logistics.

How are you involved in your community?

I am a member of the Washington Round Table (WRT), a nonprofit organization of senior business leaders who advocate on public policy issues important to Washington state's economic viability and livability. Next year, I'll begin a one-year stint as WRT's chairperson. Today, in addition to my role on the education policy committee, I am involved in a WRT/Washington Bankers Association initiative that is working to address disproportionate access to homeownership among people and communities of color in Seattle.

In addition, I serve on the board of the Pacific Coast Banking School, in partnership with the University of Washington Graduate School of Business. And, I'm a board member for the Independent Colleges of Washington and Pioneer Human Services, a nonprofit organization that seeks to give individuals with criminal histories the support and services they need to successfully reenter society and lead healthy, productive lives.

Why do you take time from your busy schedule to volunteer?

I am very grateful for the breadth of experiences that my long career has given me, and I look to volunteer activities as a way to give back to my community by leveraging those

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Build Career Skills with Upcoming WBA Fall Programs

Throughout this autumn, the WBA is offering a variety of opportunities for bankers to expand their careers and knowledge through our Development Programs and conferences.

These programs have been designed specifically with bankers in mind, helping you build skills to further your career that provide the latest updates in the industry.

Beginning in September, the virtual **Credit Analyst Development Program** will provide students with the skills needed to become strong credit analysts. Sessions include a refresher on accounting, understanding and employing financial analysis tools, personal business tax return analysis, loan structure, documentation, and compliance, as well as the basics of commercial real estate lending.

WBA's virtual program gives students a strong connection to each instructor and provides time for questions and networking with fellow students. Classes are purposely kept small to maximize the learning opportunities for students virtually.

At the beginning of October, the hybrid **Retail Branch Manager Development Program** will kick-off. This program was redesigned in 2019 to fit the current retail banking envi-

ronment. Sessions, which run through March will be virtual, except for the final class, which will be held at the WBA office in Seattle.

Students will gain a broader understanding of the retail branch market, build interpersonal communication skills, and develop ways to strengthen client relationships.

The **2021 Virtual Women in Banking Conference** will be held on November 4-5. The conference runs from 8:30 a.m. to noon each day and will feature a session with Elizabeth McCormick, a decorated U.S. Army Black Hawk helicopter pilot who will share leadership lessons she learned not only as a member of the armed forces but in business as a contract negotiator and commodity manager.

On December 2-3, WBA will host the **2021 Virtual Bank Executive Conference**. The conference will run from 8:30 a.m. to 4 p.m. on December 2, followed by a half-day from 8:30 a.m. to noon on December 3. The agenda will feature sessions on the economic outlook, regulatory and legislative trends to watch, and more. This year, banks can send an unlimited number of attendees because registration was included in WBA membership dues.

Registration for the **2022 Executive Development Program** will also open soon. This popular program regularly sells out, so WBA highly recommends any interested student registers early to ensure their participation next year.

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

Events Calendar

July 15-16 – 2021 Virtual OBA/WBA Bankers Convention

September 30 – 2021 Virtual Credit Analyst Development Program

October 6 – 2021 Hybrid Retail Branch Manager Development Program

November 4-5 – Virtual Women in Banking Conference

December 2-3 – Virtual Bank Executive Conference

**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/calendar.

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2021 WBA & OBA

VIRTUAL CONVENTION

JULY 15-16

Register online at www.wabankers.com/convention

Industry Experts Share Insights During 2021 Virtual Fintech Conference

During the second annual Virtual Fintech Conference, held in June, attendees from Washington, Oregon, and North Carolina learned about the latest innovations in the fintech field.

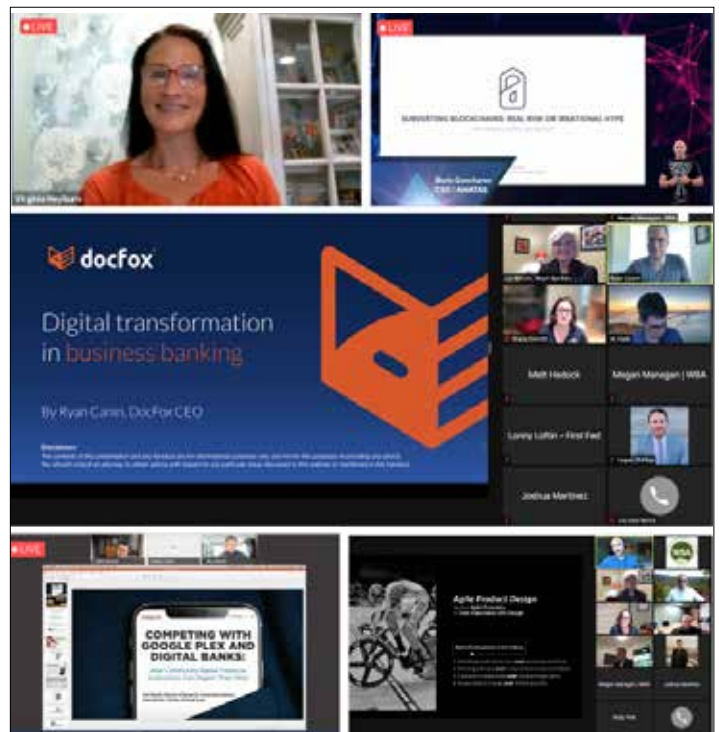
The conference kicked off with Boris Goncharov, CEO of Amatas, discussing blockchain and how security concerns will remain with digital currency, despite claims to the contrary. He highlighted real-life examples and vulnerabilities of how blockchain and cryptocurrencies can be attacked and subverted, along with the impacts and implications for the industry.

Throughout the conference, attendees joined Buzz Sessions where subject matter experts discussed the latest in their fields. Featured hosts included Trey Reeme from Trabian, Ryan Canin from DocFox, Lisa Gold Schrier from the American Bankers Association, and Scott Fieber from Cook Security Group. These sessions allowed attendees to learn from experts and ask their questions during a live roundtable.

The first day of the conference closed with a session hosted by Dave DeFazio, partner at StrategyCorps, and Ron Shevlin, director of research at Cornerstone Advisors, on how banks can compete with Google Plex and digital banks. Their session focused on the competition banks are facing from digital banks, including online-only banks and apps, and what the industry should consider when it comes to competing with these businesses.

On the second day of the conference, Scott Alldridge, CEO of IP Services, hosted a fireside chat with Ron Ross, a cybersecurity fellow with the National Institution of Standards and Technology, on the current state of cybersecurity. With many high-profile breaches in recent years, they highlighted trends to watch, including ransomware, and what banks can do to combat bad actors.

After two more Buzz Sessions, the conference closed with



a special presentation by Verkada Co-Founder and Executive Chairman Hans Robertson on what they learned following a massive security breach last year. Robertson shared lessons learned and ways for the banks to think about cybersecurity as they handle their controls.



Industry News

New Hires

Mistee Verhulp
Family Advisor at Baker Boyer Bank

Karen Tomerlin
Trust Advisor at Baker Boyer Bank

Mariko Blakely
Vice President and Relationship Manager for Corporate and Institutional Banking at PNC Bank

Brandon Lance
Vice President and Senior Credit Officer at Sound Community Bank

Jennifer Mallon
Senior Vice President and Chief Accounting Officer at Sound Community Bank

Jay Dogan
Commercial Loan Officer at Sound Community Bank

Matt Hadlock
Vice President and IT Manager at Liberty Bank

Angie Payne
Assistant Vice President and Loan Operations Specialist at Liberty Bank

Henry Lee
Senior Vice President and Senior Commercial Lending Manager at SaviBank

Promotions

Stacy Hart
Financial Service Specialist at Kitsap Bank

Juancarlos Martinez
Senior Vice President and Chief Information Security Officer at Columbia Bank

Katerina Kuznetsova
Senior Vice President and Underwriter Municipal and Specialty Banking at Kitsap Bank

Sammantha Ray
Senior Vice President, Credit Officer, SBA Administrator at Kitsap Bank

Celia Kuhl
Vice President and Real Estate Loan Manager at Peoples Bank

Jennifer Evans Thompson
Executive Vice President and Director of Mortgage Banking at Peoples Bank

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

WBA Member News



U.S. Bank Employees Pack Food at Food Lifeline

Members of the U.S. Bank Women's Resource Group in the Seattle area helped Food Lifeline in late spring by volunteering at the organization's warehouse.

The group packed 3,740 pounds of food to be distributed to the local food bank before Memorial Day.

Washington Trust Bank Employees Build Garden for Imagine Housing



Members of the Washington Trust Bank Western Washington office helped build a garden for residents of Athlene, one of Imagine Housing's 15 apartment communities.

Imagine Housing provides homes to over 1,400 people throughout the region whose income level is below 60 percent of the area median income.

"It was very rewarding to volunteer and help Imagine Housing," said Peter Skovron, Bellevue private banking team leader and senior vice president. "We had fun bonding as a team, got some exercise and fresh air, and accomplished providing an area where residents can now garden and grow their own vegetables, flowers, and other plants for their community. The sense of doing good and helping those in need in our community goes beyond achievement and is good for the soul!"

Wells Fargo Awards \$1 Million to Rainier Valley Community Development Fund

In late May, Wells Fargo announced it had awarded a \$1 million grant to the Rainier Valley Community Development Fund (RVCDF) to help small businesses stay open and save

jobs in the Seattle area. The funding will help RVCDF provide micro-grants, low-cost forgivable loans, technical assistance, and long-term business coaching for diverse low income entrepreneurs.

The grant is part of Wells Fargo's Open for Business Fund program, which was launched in 2020. To date, the fund has deployed more than \$158 million in philanthropic capital to community development financial institutions which is helping 26,000 minority-owned small businesses maintain 75,000 jobs nationwide.

"Small businesses are the engine of our economy. The capital provided from the Open for Business grant will aid our clients in many ways," said RVCDF Executive Director Sanjiv Doreswamy. "The Rainier Valley Community Development Fund is excited to disperse capital to small businesses across South Seattle. Thank you, Wells Fargo, for giving RVCDF the opportunity to help businesses across the Rainier Valley and South Seattle."

"We want small businesses to know they are not alone. We are going to continue to come together as a community to foster an inclusive recovery and strengthen the small business sector for the long term," said Dwight Prevo, Wells Fargo's Washington community development officer. "Our Open for Business Fund draws on the expertise of nonprofits like Rainier Valley Community Development Fund to help expand additional capital, emergency relief, and technical assistance to minority-owned businesses."

1st Security Bank of Washington Assembles Kids



Activity Kits with United Way of Thurston County

1st Security Bank of Washington partnered with the United Way of Thurston County's Workplace United program this spring to build activity kits for kids.

Bankers helped assemble 100 kits for kids in the shelter program as part of the Family Support Center of South Sound.

Three Pierce County Bankers Honored by South Sound Business Magazine

This spring, South Sound Business Magazine announced its latest round of 40 Under 40 honorees, including three bankers from the Pierce County area.

The bankers included Mike Bowen, SVP/chief information officer at Olympia Federal Savings; Austin Patjens, vice president and SBA business development officer at Heritage Bank; and Rebecca Williamson, vice president, and human resources manager at Commencement Bank.

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Bank of the Pacific Donates Food Following Shred Event

The Bank of the Pacific hosted a special free shred event at all of the bank's locations this spring and encouraged residents to also donate food for the local food bank.

The bank was able to fill food bins at the branches throughout Washington and Oregon to be donated to each branch's local food bank.



Sound Community Bank Teams Help Clean Park

Members of the Sound Community Bank's Belltown and Cedar Plaza teams volunteered this spring by cleaning up Terrance Creek Park in Mountlake Terrace.

This is the second time in recent months volunteers from the bank have helped clean this park.

U.S. Bank Foundation Donates to Chinese Information and Service Center



The U.S. Bank Foundation announced this spring it would be providing a grant to the Chinese Information and Service Center (CISC) to fund ongoing work on anti-hate and bias programs supporting members in King County.

Board members of the U.S. Bank Seattle Asian Heritage business resource group collaborated with CISC to provide supplies and personal emergency alarms for seniors in the International District community.

First Financial Northwest Banker Named to Renton Technical College Trustee

In mid-June, Washington State Governor Jay Inslee announced that Jay Townsend, vice president at First Financial

Northwest Bank would join the board of trustees for Renton Technical College (RTC) and Foundation.

Previously, Townsend had served as a member of the RTC board. An active member of the Renton community, he has been a long supporter of the RTC Foundation and also serves on the Greater Renton Chamber of Commerce board, member of the Renton Rotary Club, past regional board president for Bethany Christian Services of Washington.

"We are thrilled to welcome Jay to the Board of Trustees," said Board Chair Kirby Unti. "He understands the important role technical colleges play in meeting both student and workforce need and shares our commitment to equity and ensuring all our students succeed."

Mountain Pacific Bank Supports Girls on the Run of Snohomish County



This spring, members of the Mountain Pacific Bank Lynnwood branch supported the Girls on the Run of Snohomish County 5k race.

The annual celebration is held at local parks in Snohomish County where teams and families participated.

First Financial Northwest Bank Builds with Habitat for Humanity



This June, employees from First Financial Northwest Bank volunteered on a Habitat for Humanity Seattle – King County build project.

Volunteers were spread out throughout the project helping to build a new home for a local family.

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Bust to Boom: Maximizing the Post-COVID Consumer Lending Opportunity

Despite – or perhaps even because of – the pandemic, loan demand remains healthy. Many are still beginning home improvements, buying new homes and autos, or financing their children's educations — and many consumers are simply in need of auto refinancing or personal loans to supplement cash flow.

Prior to the pandemic, consumers were generally positive about their financial situations, with consumer confidence reaching 126.5 at the end of last year, according to the U.S. Conference Board's index of consumer confidence.

Today, with unemployment claims dropping and signs of an economic rebound on the horizon, consumers are looking forward to getting back on their feet. And with increased confidence and a strong desire to quickly return to pre-pandemic lifestyles, consumers will soon be borrowing like never before.

So, while COVID-19 has brought uncertainty to millions, it has also offered additional borrowing opportunities for consumers who now and will soon be well-positioned to capitalize on them.

For this reason, it's more important than ever for financial institutions to be ready with relevant, personalized loan offers at the time consumers are shopping.

With social distancing the norm for now, customer expectations for superior, friction-free digital service will remain strong. Financial institutions already know the importance of being customer-centric.

In a recent survey by fintech company Novantas only 40 percent of respondents said they expect to return to branches post-COVID, indicating the shift to online is likely to stick.

To generate sustainable loan growth today, financial institutions must rethink how to communicate with potential borrowers.

Today's consumer is more informed than ever with more lending options to choose from. With the speed, safety and convenience of digital and consumers now in the driver's seat when choosing their lenders, modern day financial marketers must look beyond conventional, seasonal push marketing tactics and focus on strategies that engage prospects and customers and achieve lending goals all throughout the year.

A great way to start is by redefining a "potential borrower" as anyone who pre-qualifies for a loan, credit card or other product with your financial institution, whether they are currently interested in borrowing or not, and engage them immediately and relevantly.

That's why a holistic loan marketing strategy — one that

both actively reacts to individuals currently shopping for loans, as well as proactively creates interest among those who are not — makes so much sense in today's wide-open economic climate.

An "always-on" approach makes it possible to reach consumers in all stages of the decision-making process, increasing the likelihood of acquisition and sustained loan growth.

For example, actively responding to a credit inquiry will help you to stay engaged with current and potential new customers. An offer made while a consumer is researching a product or service has far more relevance and saliency than one made outside the shopping window. Extending an offer while consumers are researching is also highly cost-effective.

In addition, proactively placing multi-product, recurring pre-screened loan offers at the fingertips of pre-qualified loan candidates can instantly transform non-shoppers into borrowers. It delivers the ultimate friction-free consumer lending experience, while increasing the financial institution's loan volume, reducing loan acquisition costs, and streamlining loan processes.

Give consumers easy access to multiple, preselected loan products and watch response rates and your total loan portfolio skyrocket.

A three-part, proactive and reactive strategy for loan marketing success:

- Set up an alert program to receive notifications from multiple credit bureaus whenever a credit inquiry is submitted for your customers.
- Using all three credit bureaus is best, as it will provide 75 percent more coverage. Monitoring these inquiries and then countering with a quick, pre-approved offer via the channel to which shoppers are most likely to respond will help you stay one step ahead of the competition and win market share.
- Send offers quickly via direct mail, email and phone when they're most likely to need a loan. You will be creating quality customer experiences that can strengthen loyalty, reduce attrition and extend your brand.

In a perfect world, your customers would never even think to inquire about a loan from a competing institution and you'd have the resources to get in front of every prospect. But times have changed with multiple channels and myriad borrowing options now available.

You can, however, effectively compete for your share of consumer loans with a three-part strategy that includes reactive alerts, proactive engagement and quality customer experiences.



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Baker Boyer Bank Volunteers to Pick Up Garbage in Local Communities



Throughout Baker Boyer Bank's footprint last month, members of the bank team, including their families, volunteered by picking up garbage around local parks.

Almost 90 volunteers helped clean up parks in Walla Walla, Tri-Cities, and Yakima.

Beneficial State Bank Regional Credit Administrator Honored by Seattle Aquarium

In late June, the Seattle Aquarium announced that board member and regional credit administrator for Beneficial State Bank Susan Gates was honored with the Scott S. Patrick Inspirational Award.

Gates, who has been a board member for the Aquarium for 25 years, was given the honor due to her continued work with the organization. The award is named for late Aquarium board member and Seattle Seahawks executive who served with passion. It is given annually to a board member who exemplifies the passion, leadership, and enthusiasm characterized by Scott Patrick's life and service.

Gates joined the board in 1996 and is on the finance and project oversight committees. Her lifelong and deep love of the ocean, along with her commitments to conservation and environmental justice are reflected in her contributions to the Aquarium.

Peoples Bank Sponsors Everett Sorticulture Event



In mid-June, the city of Everett hosted its annual Sorticulture event, sponsored by Peoples Bank.

The event is a three-day outdoor festival to celebrate the best parts of outdoor living in the Pacific Northwest. The festival includes garden art, local plants, and flowers, as well as hand-made outdoor products.

Washington Trust Bank Volunteers with Habitat for Humanity Spokane



Earlier this spring, members of the Washington Trust Bank team in Spokane participated in Habitat for Humanity Spokane's 20th Annual Blitz Build.

Members of the Crew in Blue helped build a home for a family in the greater Spokane area.

YWCA BankWork\$ Program Celebrates Spring Graduation

In early June, the YWCA BankWork\$ program celebrated with a virtual graduation for its spring class.

The students completed an 8-week training program, this time virtually. Following the ceremony, students met with banks from throughout the greater Puget Sound for a virtual job fair.

First Federal Announces New Club 100 Member

Earlier this spring, First Federal announced a new team member joined the bank's Club 100, having volunteer 100 hours in a year.

Kimberley Littlejohn, a customer service team member, volunteers at Revolution Church in Port Angeles where she helps lead worship, teaches, and leads the Young Adults Group.

Yakima Federal Savings Donates to Richland National Little League



Earlier this year the Red Mountain Event Center hosted a Little League Night contest during the April Movies at the Mountain event.

The contest winner was Richland National Little League, which earned a \$1,000 donation from Yakima Federal Savings.

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 Cryptocurrency is Affecting BSA Initiatives

By Hannakah Rubin, Risk Management Consultant at Abrigo

As cryptocurrency gains traction with consumers quickly, financial institutions (FIs) and other regulatory institutions are vying for the opportunity to provide this service to their customers to keep up with the growing demand for quick and convenient banking at a low cost. As this market expands, so does a new frontier of cyber-fraud. The need for adapting BSA initiatives to identify and mitigate financial loss is already upon us.

Cybercriminals are stealing cryptocurrency and accepting the payment for goods to hide the origin of the funds. A third party, known as a Nested Service Provider (NSP) or an Exchange, is used to send cryptocurrency to a deposit address they own. The illicit funds are first sent to the NSP to “clean” the money, and then the NSP sends it to the criminal’s deposit account on the other side. The cybercriminals are both the buyer and the seller.

Does this sound familiar? This is just another piece of money laundering that needs to be studied and understood by FIs to identify it quickly, and new procedures need to be considered. BSA departments at FIs are fervently creating programs and processes to combat this specific piece of money laundering.

The State of Crypto Crime

Primarily due to its monikers, cryptocurrency criminals are using NSPs to find more ways to defraud the consumer and the facilitator, all while staying anonymous.

According to the “2021 Crypto Crime Report” published by Chainalysis, 55% of all cybersecurity crime is comprised of just 270 deposit addresses. This is a lot of activity for such a small number of addresses; especially when you consider this activity pulled in \$1.3 billion in criminal gain within one year. This indicates that fraudsters are surer of their cyber-crimes than with other crimes, where the activity would be broader and spread

out to further avoid detection.

In 2020, cryptocurrency-related crime fell significantly, according to the same Chainalysis report. However, a large Ponzi scheme did somewhat inflate the 2019 numbers. Law enforcement is of the opinion that this activity will only become more difficult to manage by FIs.

Despite the risks, this new way of conducting business will mean an influx in profits for financial institutions and convenience for customers, and it’s important that banks and credit unions are prepared.

Mitigating Cryptocurrency-related Risks

The most effective way to fight cryptocurrency-related risks and mitigate financial loss to your institution is to be vigilant and stay on top of existing and burgeoning fraud trends. Through actively seeking and understanding these trends, as well as reviewing your BSA processes, your institution can continue to fight the good fight to avert loss.

If you would like to have a more specific or tailored plan to address how your institution is mitigating risk with cryptocurrency or any other area, our advisory team is available to help with training, updating policies and procedures, and consulting.

Here are a few things you can also do to arm yourself with information on growing trends:

- Frequent trusted websites like the Federal Trade Commission FTC (5 key types of Nested Service Providers) and FinCEN
- Ensure you are using the BAM+ platform to its fullest capabilities. Contact your Customer Success Manager or Abrigo Support should you have any questions
- Stay in the know by taking advantage of Abrigo’s blogs, webinars, and whitepapers

You can learn more about Abrigo online at their website www.abrigo.com.

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experiences. A core U.S. Bank value is to do the right thing, and that means – in part – that we are here for the communities where we do business. I feel fortunate to work for a company that supports my volunteer work and my board service, which reflects my passions: the power of education to enlighten and uplift our human experience and ensure educational access/readiness to all; organizations with missions that focus on providing support for those struggling with addiction and related negative outcomes; and being a responsible caretaker of and advocate for this incredible

planet.

If you were to thank one person for helping you become the person you are today, who would it be and what did they do?

My mother. As a single mother, she demonstrated her resilience, the power of a steadfast work ethic, and the importance of financial responsibility, all while managing very challenging personal circumstances. She also instilled my value of education and being a lifelong learner. After dropping out of college, she completed her associates degree and then bachelors degree, at night, while working full

time in University of Cincinnati’s graduate School of Business. I am very proud to share with you that we earned our business degrees together the same year.

What do you do for fun when you’re not in the office?

I love being outside. In my four years living in the Pacific Northwest, I’ve successfully summited Mt. Hood and I’ve attempted to summit Mt. Rainier. I love kayaking and take every opportunity to be on the ocean. I have a dry suit SCUBA certificate, which allows me to search for the elusive Giant Pacific Octopus – a favorite hobby.

Mortgage Borrowers Amidst the COVID-19 Pandemic 2021 and Onward

By Tim Dominguez, Associate General Counsel, Compliance Alliance

In the beginning of the year, a statement by Acting Director Dave Ujio of the Consumer Financial Protection Bureau (CFPB) indicated the agency's shift to a more assertive role in the enforcement of regulations protecting consumers. One of the chief enforcement priorities because of this shift is to emphasize protection and compliance with regulations for borrowers impacted by the COVID-19 pandemic. Now that we are in the middle of 2021, the CFPB has published a report analyzing data on mortgage borrowers most affected by the pandemic and proposed a collection of rules extending protections at least until the middle of next year. Because of these publications, banks should be prepared for a larger regulatory emphasis on COVID-19 protections and fair lending practices.

The COVID-19 pandemic's financial impact on banks and mortgage customers has not been this vast and deep since the Great Recession of 2010 according to the CFPB's Special Issue brief titled *Characteristics of Mortgage Borrowers During the COVID-19 Pandemic* released May of this year. Because of the pandemic's economic reach, we have seen an increase in the availability of forbearance programs that temporarily allow borrowers to stop making payments even when delinquent. The CFPB analyzed the data and found that Black and Hispanic borrowers who make up a significant percentage of all mortgage borrowers at 18 percent account for an even larger percentage of borrowers in forbearance at 33 percent or delinquent at 27 percent. The CFPB also found that loans with a loan-to-value (LTV) ratio above 60 percent were more common for borrowers in forbearance or delinquent than those current with their mortgages. Those with an LTV ratio above 95 percent were found to be most susceptible to defaulting on their mortgage.

The data show that loans in forbearance or delinquent were more likely to be single-borrower loans with a sizable amount being delinquent for at least 30 days to 60 days. In crystallizing all these findings, forbearance and delinquency are more common for borrowers who are Black or Hispanic, have a higher LTV, or have difficulty in paying other obligations. Acting Director Ujio stated that, "Communities of color have been hit hard by the pandemic, and the latest data show that many borrowers are still hurting. The CFPB will continue to seek and actively respond to developments in the market, doing everything in our power to help families stay in their homes." This runs true with the CFPB's priorities earlier this year in taking a more assertive role in enforcing consumer protections due to COVID-19 as well as taking steps to ensure racial equality in financial services.

In response to the hardships mortgage borrowers are experiencing due to the financial implications of this pandemic, the CFPB has issued several proposed amendments to the Mortgage Servicing Rules with a tentative effective date of August 31, 2021. The notice of proposed rulemaking (NPRM) adds a general definition for "COVID-19-related hardship" that matches the CARES Act. The proposition in the context of early intervention requires servicers to ask whether a borrower

not in forbearance at the time of live contact is experiencing a COVID-19 related hardship. If the borrower indicates in the affirmative, the servicer would be required to list and describe available forbearance programs and give information as to how the borrower can apply for them.

Loss Mitigation

The NPRM also contains amendments to the loss mitigation procedures. Current rules require servicers to take reasonable due diligence in obtaining a complete application for loss mitigation. This rule specifically focuses on what would constitute due diligence for borrowers in short-term forbearance due to a COVID-19-related hardship. If the program was offered in an applicable circumstance and was based on an incomplete application, the servicer must contact and determine if the borrower wants to complete their application and proceed with a full loss mitigation evaluation at least 30 days before the short-term program ends. When evaluating an application, the proposed rule would now allow servicers to offer certain modifications based on an incomplete application if certain criteria are met. This criterion includes the loan modification extending the length of the loan by no more than 40 years and the borrower's pre-existing delinquency would be resolved by acceptance of the loan modification.

Foreclosure Implications

Another facet of the loss mitigation procedures impacted by the CFPB's NPRM is foreclosures. While certain agencies and Government-Sponsored Enterprises (GSEs) have all placed their own moratoria on foreclosure, the NPRM's effect on foreclosures is not limited only to secondary market or federally backed loans. The NPRM adds a temporary COVID-19 pre-foreclosure review period in which a servicer cannot make the first notice or filing for foreclosure. The current rule states a servicer is prohibited from making this notice or filing unless the borrower is more than 120 days delinquent. This new rule is proposing to add an overarching prohibition against making the notice or filing for foreclosure because of any delinquency until after December 31, 2021. This would mean, if this rule does become final, foreclosures may not be able to occur until after the year is over, providing extra protection for borrowers impacted by the pandemic.

Banks should now if they have not already done so, take steps in preparing to provide customers impacted by COVID-19 more protections as well as comply with any regulations requiring them to do so. Further, true to the CFPB's direction, banks should also be prepared from an examination scrutiny standpoint during the pandemic for an emphasis on fair lending. The year is already over halfway over, and it is readily apparent that the financial impact and consumer relief may carry on to the next.

Tim Dominguez serves as Associate General Counsel for Compliance Alliance, joining C/A after graduating from the University of Houston Law Center. During law school, he worked as an intern within the legal department of Frost Bank in San Antonio, TX. He also holds a Bachelor of Science in Communication Studies from The University of Texas at Austin. Before law school, Tim worked various jobs within the Texas state government, including the Texas Senate and the Texas Legislative Council. As one of our hotline advisors, Tim provides guidance to C/A members on a wide variety of regulatory and compliance issues, in addition to writing articles for our publications.



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