



# Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

March/April 2014

## PRESIDENT'S MESSAGE

### Plans to leverage momentum for stakeholders' benefit

The 2013 annual report to shareholders of Bankers' Bank of the West, Bancorp, Inc. (Company) includes a message from me that discusses results in notable areas, such as improved earnings and asset quality.

After a return on average assets of 1.4% in 2012, BBW had another strong year in 2013 with a return on average assets of 1.3%. Tax benefits and loan loss reversals in both years helped to enhance earnings for 2013 and 2012. In particular, nonperforming loans dropped from 12.8% of total loans as of December 31, 2010, to 0.2% at year-end 2013. The bank's Texas Ratio ended the year below 6%, in contrast to the high point of 85% during the last economic downturn. BBW capital ratios remain strong with a Tier 1 Leverage Capital ratio of 11.7% and a Total Risk-Based Capital ratio of 21.5% at 2013 year-end.

Now well into 2014, it appears BBW is poised to have another solid year, with core earnings, asset quality, and capital ratios remaining strong. This has positioned us to focus on key strategic objectives.

One objective of the Company is to resume paying common share dividends in 2014. There are no bank regulatory restrictions preventing the Company from paying dividends now. However, the Company's status as a recipient of a TARP preferred shares investment by the Treasury Department **does** prohibit the Company from making payments. Removing the Treasury Department as a

preferred share owner is a major goal for the Company. A plan that has been in the works for over a year seems to have a good chance of coming to fruition. If it does, the Treasury Department will no longer own TARP

preferred shares, removing the last hurdle to paying common shareholder dividends.

Second, BBW is actively seeking a reasonably priced compliance solution for community banks. With officers in the field who share the concerns expressed by our customers, and a senior management team that includes three former community bank presidents, BBW is sympathetic to the tremendous regulatory compliance pressures community banks are under.

Finally, the goal of helping community banks succeed is something we take seriously. In 2013, we served 55% of the banks in our core market area—good progress. Still, that means we did **not** provide solutions for 45% of the banks in our footprint. We expect to deepen relationships and make greater inroads in 2014 and beyond with the aim of becoming an even bigger proponent of community banking—an institution we are proud to support.



Bill Mitchell  
BBW President and CEO

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## TAKING NOTE

### COMMENTS SOUGHT ON REG CC PROPOSAL

The Federal Reserve System has proposed **rules changes to Regulation CC** and asked financial institutions to respond with comments. The full proposal, published in the Federal Register, is 65 pages long.

To encourage a cross-section of financial institutions to submit comments on the changes, the educational arm of the not-for-profit Electronic Check Clearing House Association™ (ECCHO®) created a document that recaps the key concepts and alternatives detailed in the proposal. In just three pages, ECCHO's synopsis makes the issues easier to grasp and evaluate.

With permission from ECCHO, Bankers' Bank of the West has posted the synopsis at [www.bbwest.com/RegCCpro.pdf](http://www.bbwest.com/RegCCpro.pdf). Please take time to read the document—and refer to the full proposal for details.

Your bank is urged to respond soon so that final changes to Reg CC may take into account a range of viewpoints and concerns from financial institutions of all sizes. **The Fed will accept feedback until May 2.**

### DATES SET FOR BANK CARD CONFERENCE

The **2014 Bank Card Conference** will be held **August 28 and 29**, and the location will most likely be Black Hawk, Colorado. Mark your calendars, plan to attend, and check [www.bbwest.com](http://www.bbwest.com) for more information in the coming months.

### DID YOU KNOW

If your imaged cash letter is processed by Bankers' Bank of the West, your bank is sponsored by BBW for ECCHO membership at the most economic level. Learn more about the organization at [www.eccho.org](http://www.eccho.org).

## ABOUT

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## Announcing two new modules for international payments and compliance

Debbie Wendt, Vice President — Operations  
Bankers' Bank of the West

### Module 1: Expanded OFAC search

In February, the Office of Foreign Assets Control (OFAC) issued a list of foreign people and entities identified as having violated, or played any part in an attempted or actual violation of, U.S. sanctions on Syria or Iran. Foreigners involved in deceptive transactions in support of people subject to U.S. sanctions are also on the list.

As a group, the people and entities on the new list are known as Foreign Sanctions Evaders (FSE). While some overlap could occur between the Specially Designated Nationals (SDN) and FSE lists, U.S. financial institutions are required to search against current versions of both lists, as transactions by U.S. citizens or entities that involve FSEs are banned.

The BIDS integrated OFAC module now searches against all three of the critical lists—FSEs and SDNs as well as the Palestinian Legislative Council (PLC) List.

Detailed information about the FSE List is posted to the U.S. Department of the Treasury website in the Resource Center under the *Financial Sanctions* category.

### Module 2: International ACH payments

To meet the need for efficient and cost-effective international payment processing, BIDS now offers FedGlobal® ACH Interface for the origination of cross-border ACH payments. This solution uses intuitive wizard-based template creation to facilitate a smooth, economical straight-through payment process.

As a part of BIDS, the FedGlobal ACH Interface offers complete reporting and disbursement control as well as streamlined processing. ACH is a cost-effective global payments method compared to other money transfer alternatives.

What's more, like BIDS' other Correspondent Gateway foreign payment modules, FedGlobal Interface integrates printable disclosures and reporting to help your bank comply with the requirements established by the Consumer Financial Protection Bureau and Regulation E.

**To activate or learn more** about BIDS' **FedGlobal ACH Interface** or **OFAC** module, contact your cash management officer, or speak with a BBW Operations specialist at **800-873-4722**.



Below — This staff photo was mistakenly omitted from the January newsletter. Pictured, from left, are four of the bank's longest-tenured employees, all of whom work in the Operations area: Mary Naslund; Sandy Gerke; Pilar Balatbat; Patty Pinson.



## What you should know about concentration risk and approaches to managing third-party relationships

*Bankers' Bank of the West Bank Card Division*

BITS, a technology division of Washington, D.C.-based Financial Services Roundtable, authored an insightful guide entitled “BITS Guide to Concentration Risk in Outsourcing Relationships.”<sup>1</sup> Though published in 2010, the paper is still recommended reading for banks of all sizes—especially those weighing the pros and cons of consolidating services with a single provider.

The term concentration risk, as applied to third-party (or outsourced) relationships, refers to the potential for loss as a result of lack of diversification in service providers. The BITS guide lays out effective recommendations for managing risks associated with third-party relationships. See the sidebar on p. 5 for a recap of suggestions.

Along a similar vein, the FDIC Compliance Examination Manual<sup>2</sup> counsels financial institutions to frequently and thoroughly monitor functions performed by third-party providers, especially relationships deemed significant by examiners. The manual goes on to list third-party providers with access to sensitive customer information as well as those involved in card payment services among the types of outsourced relationships that could be considered significant.

The Office of the Comptroller of the Currency (OCC) details requirements for

managing third-party relationships as well. In a recent bulletin on risk management, the OCC states banks must identify and monitor “concentration risks that may arise from relying on a single third party for multiple activities ...”

Managing risk of all kinds is central to the health of any financial institution. For many reasons, BBW's Bank Card Division has chosen First Data as its source of excellent debit and ATM processing and merchant processing programs for the community banks we serve. It is worth noting that First Data's longstanding decision **not** to affiliate with any core system was reached deliberately and prompted by concerns for client banks.

BBW and First Data share a belief that a decoupled payments solution provides optimal flexibility and product-development expertise to the community bank. In addition, BBW and First Data consider some separation in relationships beneficial to the safety and soundness of community banks.

**For information** about any of the bank card programs available through Bankers' Bank of the West, call **Mary Ann Elliott-Supples** at **800-501-8630**, or email [msupples@bbwest.com](mailto:msupples@bbwest.com).

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<sup>1</sup>BITS, a division of the Financial Services Roundtable. (2010). “BITS Guide to Concentration Risk in Outsourcing Relationships.” <http://www.bits.org/publications/> 10 March 2014.

<sup>2</sup>Federal Deposit Insurance Corporation. (January 2014). “Abusive Practices.” *Compliance Examination Manual*, §Third Party Risk VII-4.1. [www.fdic.gov/regulations/compliance/manual/](http://www.fdic.gov/regulations/compliance/manual/) 10 March 2014.

<sup>3</sup>Office of the Comptroller of the Currency. (Oct. 30, 2013). “Risk Management Guidance.” OCC Bulletin 2013-29. [www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html](http://www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html) 10 March 2014.

## **Risk management to be regarded from four vantage points**

Presenters with distinct areas of expertise will speak on four topics of growing interest to the financial services industry at the BBW **Bank Operations Conference** to be held **May 15** in **Denver**.

Through the lens of risk management, presenters will examine:

- Data/technology systems and vendor management;
- A bank's role in preventing elder fraud, and the application of new mandatory reporting requirements;



Leadership consultant and author **David Dye** will be the luncheon keynote speaker for the Operations Conference.

- What you need to know about recent changes to ACH operating rules; and

- How employers can understand and manage some of the social media-related issues affecting businesses.

The daylong program will include a luncheon address by business coach David Dye, author of *The Seven Things Your Team Needs to Hear You Say*.

Download agenda and registration details at [www.bbwest.com](http://www.bbwest.com), or call 303-313-8108 with questions.

### **Guidance\* Fundamentals for Monitoring Outsourced Relationships**

- ☑ Understand which third-party relationships have the most potential for risk to your bank's operations. When assessing risks, consider factors that might not be immediately obvious. Take into account, among other things, the entities your vendor relies on, and its other business lines or sites.
- ☑ Do your homework on the vendor. A good start would be to document which critical processes (or parts of processes) are delegated to the vendor and identify who—either the vendor or a party assigned by the vendor—actually performs each function.
- ☑ Consider fine-tuning your vendor contract to lower your concentration risk. You could, for instance, ask for the right to approve of subcontractors and conduct periodic audits, or require your vendor to furnish you with reports or provide other information upon request.
- ☑ Include in your bank's business continuity plan—and in any other pertinent contingency plans—an explanation of how you intend to manage specific concentration risks.
- ☑ Monitor concentration risk continually, and take corrective measures as needed. Such actions could take the form of modifying your bank's contingency plan, ending a vendor relationship, or any number of other remedial steps.

\* BITS, a division of the Financial Services Roundtable. (2010). "BITS Guide to Concentration Risk in Outsourcing Relationships." [www.bits.org/publications/vendorsmanagement/](http://www.bits.org/publications/vendorsmanagement/) 10 March 2014.



**PROFESSIONAL DEVELOPMENT**

**2014 payments education series launches April 23**

WesPay and Bankers’ Bank of the West have chosen the web-based courses to be scheduled exclusively for BBW’s customer banks starting in April.

The joint effort between BBW and WesPay, which acquired the ACH Regional Division of the Viewpointe® payments association early this year, is aimed at making effective job-specific training readily available to community banks. Banks can leverage the convenience of training numerous employees at once to achieve economies of scale, as pricing for the webinars is based on the number of Internet connections needed.

The 2014 webinars will be led by expert WesPay trainers; registrations and logistical preparations will be handled by BBW. The mix of courses to be offered in 2014 will give participants broad exposure to various aspects of the payments system.

SCHEDULE OF 2014 WEBINARS BY WESPAY FOR BANKERS’ BANK OF THE WEST CUSTOMERS	
Payments Fraud .....	April 23
FFIEC and Corporate Takeover .....	May 6
2014 New Rules Update .....	May 28
Essentials of Cards .....	June 24
ACH Policies and Procedures, Part 1 .....	July 8
ACH Policies and Procedures, Part 2 .....	July 15
Check Rules and Regulations .....	Aug. 27
Check Returns and Adjustments .....	Sept. 23

Complete information on these WesPay sessions—including course descriptions, session times, pricing and registration form—will soon be available to BBW customers. To learn more about the webinar training in the meantime, contact your cash management officer or email [ops@bbwest.com](mailto:ops@bbwest.com).

**BONUS ARTICLE**

**Debbie Meyers**, Bank Strategies LLC, shares insights on practices that can help limit exposure of community bank directors

to legal and personal liability. Read her recent article on the topic on the bulletin board at [www.bbwest.com](http://www.bbwest.com).



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