



Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

January/February 2015

PRESIDENT'S MESSAGE

Recent gains suggest opportunities ahead

On behalf of Bankers' Bank of the West, I wish your community bank a successful and prosperous 2015. Community banking has never been more important than it is today, and I'm confident this year will further cement the mission and purpose of our banks to our communities.

Despite numerous mergers and acquisitions and the costs associated with "unintended consequences" of actions in Washington D.C., I'm excited about the future of community banking, and I think our industry's results in 2015 will be encouraging.

For Bankers' Bank of the West Bancorp, Inc. (Company) and the subsidiary bank, Bankers' Bank of the West (BBW), 2014 provided a strong foundation for this year and beyond. The Company reported earnings of \$4.66MM, or \$21.83 per common share. The Company benefitted from approximately \$1.9MM of non-recurring after-tax income resulting from BBW's completed turnaround. The book value per share of common stock increased by 11.29% in 2014, and the Company reported a return on average equity of 10.68%.

BBW had a reported return on average assets of 0.94% versus a budget of 0.78%. It's worth noting that two main factors contribute to a generally lower ROAA at a bankers' bank than is typical of a traditional community bank: the co-op nature of a bankers' bank, and the very high level of cash bankers' banks must maintain to meet the needs of their community bank customers.

Concerning asset quality, BBW reported non-performing loans of 0.05% of total loans, a loan loss reserve of 2.37% of total loans, and a Texas Ratio of 7.40%.



Bill Mitchell
BBW President and CEO

Something else I'm happy to report is that the Treasury Department and the FDIC are no longer preferred or common shareholders of the Company. The Treasury Department's preferred shares, via the TARP program, were purchased by community banks and community bank holding companies in April of last year. Similarly, the FDIC's common shares, accumulated as a result of bank failures, were purchased by common shareholder banks and shareholder holding companies during the fourth quarter.

You deserve to be proud of the significant contribution your bank makes to the vitality of your community. The role you play in the economy is unique, and our industry's strong performance in 2014 is just one of many reasons to feel optimistic about the future.

Have a great year, and please call if we can assist you in any way.

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TAKING NOTE

CAREERS ADVANCED

Seven Bankers' Bank of the West employees received promotions in 2014. Their names are listed below along with their new titles:

- * Mary Brown
VP—Cash Management Services
- * Sandy Gerck
VP—Safekeeping
- * Lynette Gregg
VP—Bank Card Sales and Support
- * Andrew Prosnik-Benigsen
AVP—Information Technology
- * Leilani Sankey
Senior Wire Transfer/Fed Funds Specialist
- * Steve Sherman
IT Administrator
- * Scott Wintenburg
VP—Lead Correspondent Services

Congratulations to all!

ANNUAL SHAREHOLDER MEETING

The next annual meeting of Bankers' Bank of the West Bancorp, Inc. shareholders will be held in the board room at the Bankers' Bank of the West Denver headquarters on April 17. Detailed announcement and proxy materials will be mailed to shareholders in late March.

FRIENDLY COMPETITION BEARS FRUIT

During the fourth quarter of 2014, a small group of BBW staffers known as the Fun Squad invited fellow co-workers to take part in two community service projects.

The first team-building effort netted 470 nonperishable food items—487 pounds in all—for a nonprofit agency known as Metro Care Ring, which feeds 900 families.

The second encouraged employees to donate cash for the privilege of dressing casually on designated days, raising \$765 for the Children's Hospital of Colorado Foundation.

ABOUT

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Tales from the trenches: tips regarding core processors

Prepared on behalf of BBW Consulting Solutions
by **John Sneed**, President and CEO
FMS Bank ■ Fort Morgan, Colo.

Our bank just signed a contract with a new core data provider after a 24-month evaluation process. Halfway through, I wondered why we were going through the brain damage and distraction from the business of banking. But because a core processor is among your most important and expensive business partners, you should invest commensurate time in managing the relationship to ensure you derive maximum value and mitigate regulatory risk.

The recommendations below reflect “lessons learned” from our journey; I hope they prove useful to your institution.

- 1 **Annually complete an assessment** of your core processor’s capabilities and how they meet your present and future needs. Audit invoices to ensure proper billing. Identify the services being provided and their value. Be aware of other providers, and consider engaging an outside consultant to help assess your current functionality and the other options. Also, most core processors have a best practices service that can help you assess available capabilities you are not utilizing.
- 2 **Begin with the end in mind.** Should you decide to look at different processors, make a list of goals you want to achieve. Some of our goals were to lower processing costs, get back to real-time EFT, and reduce reliance on third-party providers.
- 3 **Monitor contract renewal dates.** Notify your processor 24 months before maturity that you are reviewing your options. Stiff competition in the core processing arena should help you negotiate better pricing.
- 4 **Hire an expert.** Core processing and EFT services are highly complex. We learned

through trial and error that we didn’t know what we didn’t know. Sales reps for these companies are bright, engaging people who get paid to convince you theirs is the best solution. Comparing providers is an “apples and oranges” dilemma. You need someone to interpret what you are (and are not) being told.

- 5 **Review your contract carefully.** Contracts are typically punitive and biased in favor of the processor—early termination clauses and annual service fee escalations being prime examples. Service-level agreements are another issue: Processor penalties for not meeting service-level promises are miniscule compared with the costs you incur for the downtime. Negotiate common contract expiration dates for all services (even third-party services) to expire in line with the core agreement.
- 6 **There are two schools of thought** regarding contract lengths: (1) Go for a ten-year agreement, which offers the best pricing and puts off the due-diligence process for a decade. (2) Opt for a shorter term to allow for more frequent price negotiation and reduction in the contingent liability due to early termination. Choose according to your bank’s circumstances and objectives.
- 7 **Early contract termination costs** built into core and EFT provider contracts are horrendous. Make them a key negotiating point.

The BBW Consulting Solutions team of professionals draws from nearly 200 years of collective industry experience to assist your community bank with its unique needs. To find out how we can help, call **303-903-9369** or email **jim@bankstrategies.com**.

ELECTRONIC PAYMENTS

Same day ACH is coming

*Chris Selmi, CRCM, VP Risk and Compliance
WesPay (printed with permission from WesPay)*

In December 2014, NACHA–The Electronic Payments Association published a Request for Comment (RFC) on Same Day ACH. This proposal would provide faster clearing and settlement options for all domestic ACH transactions under \$25,000. All receiving financial institutions (RDFIs) would be required to accept same day ACH transactions in order to provide certainty, ubiquity, and greater choice for consumer, business and government originators. This proposal includes a reimbursement fee of 8.2 cents per transaction to be paid by the originating financial institution (ODFI) to the receiving financial institution (RDFI) to assist in recovering average costs related to the implementation and ongoing operational support of same day ACH. NACHA accepted comments through February 6.

From the inception of the ACH Network in the 1970s, ACH transactions sent between financial institutions have always required a minimum of one business day to settle. But the demand for enabling same day ACH is heightened due to many factors including improved technological capabilities, the expansion of the types of payments or “use cases” supported by ACH, and similar capabilities

that exist in other domestic networks and other countries. These factors have resulted in expectations by some users for a faster U.S. electronic payments infrastructure.

The major use cases NACHA identified are listed below, but NACHA has also emphasized that the flexibility built into this proposal allows for the development of additional use cases and products for all participants:

- **Business-to-Business (B2B) Payments** (i.e. trading partner, tax payments and remittance)
- **Person-to-Person (P2P) Payments** (i.e. reimbursements, financial support, emergencies, loan repayments)
- **Account-to-Account (A2A) Transfers** (i.e. consumers transferring funds between accounts at different financial institutions or to populate digital or mobile payments)
- **Business-to-Consumer (B2C) Payments** (i.e. same-day payroll, insurance claims, refunds, rebates, freelance payments)
- **Consumer-to-Business (C2B) Payments** (i.e. expedited bill payments, check conversion, merchant debits, collections)

Continue reading at www.bbwest.com/WesPay_ACH.pdf, where the complete text of this article is posted.

LOOKING AHEAD

Plan under way since November to ensure a smooth transition

In a well-managed organization, every job is important. Some entail high visibility besides.

BBW Executive Vice President **Alice Voss**, appointed chief financial officer in 2009, also serves as secretary to the holding company board of directors. It was at the November 2014 board meeting that Alice announced her intent to retire at the end of June. So BBW’s succession plan, which undergoes regular reviews and fine-tuning, became the blueprint.



Alice Voss

Following that blueprint, Alice will have months to coach two of BBW’s most accomplished officers to assume her responsibilities.

The plan calls for **Debbie Wendt** to broaden her leadership duties in the operations area and for **Chris Hill**, vice-president of finance since 2012, to expand his role in finance. Both attended the Graduate School of Banking at Colorado—Debbie, class of 2014, and Chris slated to graduate in July.

For best results, leverage your talent, training and tools

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

Ongoing training and powerful tools—BIDS, for instance—are equally important to running the operations side of the bank safely and efficiently. The focus of this column will be on an automated feature designed to support your ACH risk management efforts.

Remember, though, that the best tools on the market (by themselves) are no substitute for solid policies and procedures, good judgment, and continuing job-specific education. We encourage you to keep up with news and changes in our industry—and to take part in the 2015 educational offerings sponsored by Bankers' Bank of the West.

BIDS enhancement: screening for potential duplicate files

LendingTools.com has released an automated function to help reduce the potential for sending duplicate same-day ACH files. This feature stops transmission and warns the end user when an ACH file precisely matches criteria from another file or files already sent the same day. The function will not freeze or trigger alerts for returns or corrections initiated on the system.

Files must exactly match all criteria below to initiate a “potential duplicate file” warning:

- *Only uploaded or system-originated ACH files are screened;*
- *File total debits;*
- *File total credits;*
- *File entry count;*
- *File addenda count; and*
- *File effective date.*

When the system finds a possible duplicate ACH file, a prominent message across the top of the ACH file management screen notifies

the user that the file is a potential duplicate and indicates the file has been stopped. The alert also lists the other file or files found to match the potential duplicate.



If the user chooses to override the alert, s/he can send the file by clicking the **Override Potential Duplicate** button in the warning message.

Both the detection of the potential duplicate file and the user's action will be retained in the audit history for the transaction. The record will enable BIDS administrators and end users to research issues connected to the transaction.

STAYING IN THE KNOW

Payments association to present special package of often-requested classes for BBW

At Bankers' Bank of the West's request, WesPay, a payments association and licensed provider of ACH education, has agreed to conduct web-based payments-related training for BBW customers in 2015.

Although the class schedule and specific topics are still under discussion, both sponsoring organizations are clear on the purpose of the training series, which is to make job-related education widely accessible, interesting, convenient, and affordable for community bankers.

Up-to-date knowledge of the rapidly evolving payments system has become a necessity for banks of all sizes. And web-based training is a great fit for banks with new hires, multiple branches, rural locations, or a need to train several employees at once.

The full schedule of courses will be posted to BBW's website when all details are in place. Please check www.bbwest.com in March.

Knowledge is power.

This year, transform your people
into **SUPERSTARS** with education that
supports peak performance



★★★★★ **Bank Operations Conference: Insight and Innovation in Changing Times**

May 12, 2015 ■ Denver, Colorado

Featuring * distinguished presenters * engaging topics * special interactive session: "Crucial Conversations"

Target audience * operations officers * cashiers * payments specialists * managers * internal auditors

★★★★★ **Payments Education Series Led by WesPay Payments Association**

Various dates through fourth quarter 2015 ■ Instruction via webinar

Featuring * best practices & current rules * professional trainers * convenient, cost-effective education

Target audience * cashiers * operations supervisors * teller line and customer service specialists

★★★★★ **Loan Officer Financial Management Training**

October 22 and 23, 2015 ■ Denver, Colorado

Featuring * essential skills for commercial lenders * useful techniques & tools * interactive learning format

Target audience * commercial lenders wanting to hone financial and relationship-building skills * credit analysts

Led by * Kyle Enger, co-creator of the program and frequent presenter at premier banking schools

DETAILS COMING SOON

to

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