BANKERS HELPING BANKERS

ABOUT

Through data tools and dynamic user groups, Bankers Helping Bankers provides community bankers with a knowledge base focused on bank technology and emerging fintech companies, as well as hot topics such as cryptocurrency, banking as a service (BaaS) and direct digital banking. The Independent Bankers Association of Texas (IBAT) partnered with Austin, Texas-based FedFis to bring the idea for Bankers Helping Bankers to life.

INSIDE THE PLATFORM

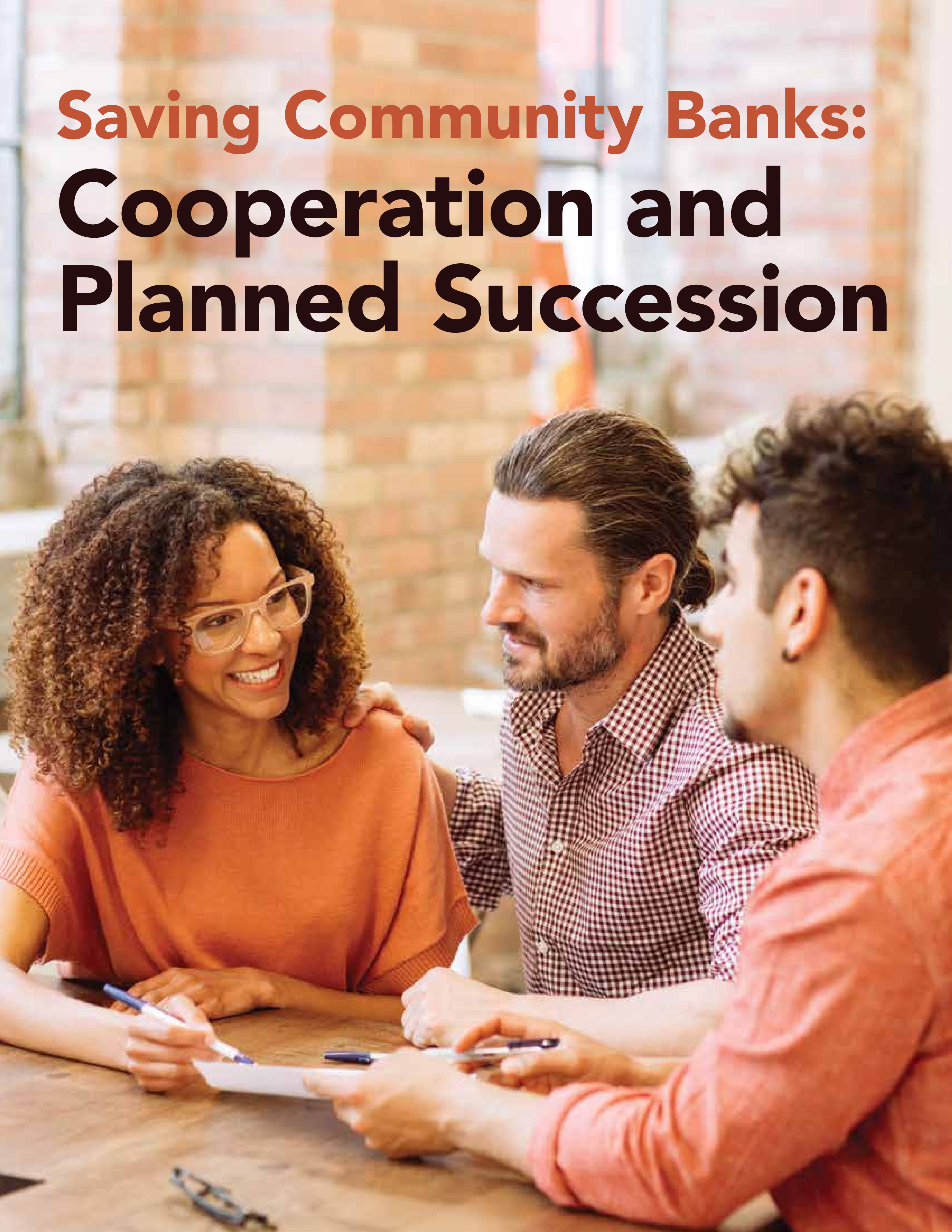
BHB is a social community at its core, that's why its called bankers helping bankers. At the foundation, our intelligence layer powers the community engagement, acting as a social engine. We achieve this data driven engagement in these key ways:

- Social +
- Vendor Due Diligence
- Smart Vendor Directory
- FinTech Directory
- Bank Digital Snapshot
- Education

msmith@ibat.org

www.bankershelpingbankers.com

Saving Community Banks: Cooperation and Planned Succession



> It makes sense for an effective banking system to provide resources for as many people as possible. What doesn't make sense is directing all the help to the top instead of the bottom.

The U.S. has undergone tremendous economic changes for more than 40 years. Those changes affect the middle class, and they also affect community banks. As income inequality has grown over the last 30-40 years, legislative changes have encouraged bank consolidation, and the number of community banks has decreased. According to an article by J.C. McKissen on the Inc. website, larger national banks either purchased these banks or merged with them. The article points out that the decrease in banks has made it harder for entrepreneurs to get the money they need. These budding entrepreneurs often depend on banks to smooth the inevitable bumps of growing a business while maintaining enough liquidity to pay the bills when they come due. The same is probably true for other customers, especially those in smaller communities.

In September 2011, the U.S. had 7,436 banks. In September 2021, the number was 4,914 banks.

There are more statistics. According to the samco-amc.com website, 1984 was a turning point. More than 10,000 community banks failed, merged or have been acquired since then. Most of those that remain have assets under $100 million. The banks that acquire them are usually about four times larger than the banks being acquired.

Why are community banks going away? In one word: legislation.

According to Oscar Perry Abello, in May 2020 on the nextcity.org website, there were 13,000-14,000 U.S. banks between the 1930s and the 1980s, but most were very small. In 1988, more than 12,000 banks had assets of as much as $300 million. Only 3,000 banks could say the same in 2020, but there were five times as many banks with $20 billion or more in assets.

The problems started with deregulation in the 1980s. By 1990, 46 states made it easier for banks to operate across state lines. In 1994, President Clinton signed the Riegle-Neal Interstate Banking and Branching Efficiency Act. The act removed federal restrictions on banking across state lines. In 1999, the Gramm-Leach-Bliley Act repealed the Glass-Steagall act that had separated commercial banking from investment banking, and big banks began merging with investment banks.

The Great Recession motivated lawmakers to create additional rules. The Dodd-Frank Wall Street Reform and Consumer Protection Act are examples. Compliance has favored large banks because community bankers don't have the same resources as their peers at larger banks. The new rules caused any bank with less than $50 million to become unprofitable.

Banks can be a powerful tool within communities. However, big banks and community banks have different roles. The biggest companies can absorb adverse circumstances; smaller companies sometimes can't.

Computerized banking has made branch banking and interstate banking possible, but it has also created competition between bankers that didn't

continued on next page

exist before. For example, suppose you have two banks in adjacent counties owned by two friends. The two friends are probably close enough physically to have lunch occasionally, and if they have a different set of customers, there's no conflict of interest. But now, suppose that one or both open a new branch in the other banker's county. If they get together for lunch, they can't talk about banking anymore because they are competitors as well as friends.

Out-of-state ownership creates a similar scenario. Different regions in the U.S. have different risks. A small banker can diversify by trading risks with bankers in other geographical areas, but big banks can handle the problem by buying risk instead of trading it.

It makes sense for an effective banking system to provide resources for as many people as possible. What doesn't make sense is directing all the help to the top instead of the bottom.

Even though the internet has made it easy for people to bank online, that doesn't mean internet banking always meets customer needs. In particular, small towns with community banks thrive; small towns without them don't. There is no substitute for a face-to-face business relationship with someone who decides to help you because they know you, not because a computer algorithm identified you as a safe bet.

People at big banks understand the importance of the community bank system, but preserving it is another matter. Where community banks focus on relationships, big banks focus on transactions that use credit scores and models. Since it costs as much to write a big loan as a small one, and big loans generate more interest, big banks focus on the big loans. They also focus more on income from fees and investments than interest from loans.

Another problem is that big banks can centralize their operations far away from their customers. Although a big bank can focus on relationships, that's a hard focus to maintain from a distance. It's easy to forget about serving people you've never met. Also, banking systems must grow to survive and maintain economies of scale. When an interstate bank decides to expand, they don't buy branches that belong to big banks. Instead, they buy the local community bank even though they know it's needed. An abstract need to support community banks is not as important to them as the immediate need to please a boss by helping an already large banking system grow even larger.

In contrast, it's much easier for a community bank to pay attention to relationships because the people who work there are often personally invested in their community. They might have another business or a farm to run on the side. They often know their customers personally. Many of their decisions are made to benefit the entire community. Also, they often counsel potential customers about what to do to achieve their goals.

When COVID-19 came along, the entire country shut down. Community banks stepped up to the challenge of helping customers. Even though the network of community banks was smaller than it had been decades earlier, it was still large enough to help with the rollout of government money through the Paycheck Protection Program (PPP). Small lenders outperformed large lenders in round one; 60% of PPP loans came from lenders with less than $1 billion in assets. (Big lenders caught up in round two.) But that help came at a price: a negative effect on liquidity. Community banks ended up with a lot of money that wasn't earning interest. Lower net interest margins mean reduced net earnings. In turn, the banks ended up with less money than they would have had otherwise to support their communities.

The fact that banks were hurt for helping out their communities was certainly not intentional. Everyone was scrambling at the time. Nevertheless, it's important to make sure community banks do a better job from now on as they advocate for themselves.

What happens when the network of community banks across the country becomes too small to be effective? People will leave rural America for big cities because they won't have enough reason to stay where they are. If we don't want that to happen, it is time to start working to protect the community banks that are still here.

Maybe it's time to study what North Dakota has done relative to community banks. The Bank of North Dakota supports community lenders in a way that happens nowhere else. As a result, North Dakota led the nation by having a higher

Bankers can also help each other survive by joining associations and participating in programs that allow them to work more effectively.

market share of deposits and PPP loans relative to population size than any other state. North Dakota has protected its community banks, and when the pandemic came along, those banks responded more effectively than other states with fewer community banks.

What can community bankers do to safeguard their banks?

It used to be that bankers passed their banks on to their families. When bankers struggle to stay in business, their children move into other businesses. That is why Job No. 1 has to be returning community banks to profitability. Community bankers can also help themselves by using important strategies such as succession planning. That way, when the day comes to hand off control of a bank to someone else, the bank can be transferred to a new owner with the same priorities and motives as the previous owner.

Bankers can also help each other survive by joining associations and participating in programs that allow them to work more effectively. As a group, bankers can also lobby on a government level to protect their interests. For example, big banks should split off the investment side of their businesses. Federal and state governments could cap the market share size of deposits that banks can have in states. The government could focus on reducing regulatory complexity and applying the same rules to any organization that starts acting like a bank. "Shadow banks" operate like banks but don't play by the same rules even though their assets are substantially larger than the banking industry's assets ($52 trillion versus $17 trillion). That's not fair.

Capping deposits would give customers in states like New York and California more choices; according to Abello, JP Morgan Chase had a 32% market share in New York. Three banks in California (Bank of America, Wells Fargo and JPMorgan Chase) had a 50% market share. No other banks had anything comparable.

Finally, another change that would help community banks is making it easier for communities to start new banks. The FDIC approves new banks, but the number of new banks has been small or nonexistent every year since 2010.

Legislation has harmed community banks. It's time to change the playing field by pooling resources within the industry and advocating with lawmakers.

Community Banks & Bankers Helping Bankers with Matthew Smith

Photo credit: Sophie Hanson

Matthew Smith is the director of innovation initiatives at the Independent Bankers Association of Texas (IBAT). He was a community banker for 18 years and worked indirectly with IBAT for 12 years. Now, he reports directly to Christopher Willison, IBAT's CEO.

Matt has a B.S. in business administration and an MBA from Weyland Baptist University.

Please tell us about IBAT and the role it plays in Texas.

We help small banks with compliance, advocacy, education and much more. We also go to Austin and Washington, D.C., as advocates to ensure legislation supports community banks. Finally, we identify vendors that associate members have endorsed so that when community banks reach out to us, we can provide them with a vetted list.

We are involved in Bankers Helping Bankers, which supports community bankers throughout the U.S. There are currently 30 state associations signed up to help community banks. Bankers Helping Bankers is a safe place because there is no vendor involvement. Bankers can access data that shows the short list of what technologies are integrated with the core and has open message boards that allow community banks a place to talk and ask questions openly.

Many community banks want and need to create efficiencies. The Bankers Helping Bankers program helps these community banks to manage their transformation with fintech and offer services that generate revenue they haven't been able to offer before.

How did you get into banking?

I did everything the hard way. I had a child, got married and decided I needed to figure life out. My wife and I worked and went to school full-time while our child was still young. I became a community banking administrative assistant and worked my way up. It was hard, but it helped me become who I am today.

How long have you been with IBAT?

As of October 2022, it's been about seven months.

IBAT hired me because I was a community banker and understood community banking needs. Community bankers listen to me because I am one of them.

What are your main job responsibilities?

I help banks with the Banks Helping Bankers program. When I asked Christopher Williston what I would do, he said I would make sure community bankers have the information they need to make educated decisions.

.

You have a story about babies, bankers and a river. Would you please tell us that story?

Two guys are sitting by a river fishing and enjoying the day. A baby suddenly comes floating down the river. They jump up, rush into the river and save the baby. When they started talking to each other, wondering why the baby was in the river, they saw another baby in the water. As more and more babies come down the river, one of the guys keeps running into the river to save the babies, but the other guy starts running up the river bank. "What are you doing?" yells the first guy. The second one yells, "I'm going to find out who is throwing babies in the river, and then I'm going to stop them."

I'm like the second guy. It's my job to make sure no more charters go away.

The number of U.S. banks is decreasing. What role has legislation played, and how did the Great Recession and COVID-19 contribute to the trend?

The Consumer Financial Protection Program (CFPB) was started in 2010 and 2011 in response to the Great Recession. Sen. Elizabeth Warren never led CFPB, but she served as a senior adviser and influenced how it was set up and who was hired. Key roster assignments went to people with credentials from the financial sector. When these senior staffers at CFPB left the organization to work in the financial sector again, they helped big banking and securities firms understand how to navigate the rules they'd written. The agency became a revolving door between government and industry.

Community banks didn't cause the banking problems legislators were trying to solve, but bad legislation placed a costly burden on community banking and decreased revenue. The new rules weren't a problem for big banks. They can absorb the cost, pay the fines and hire the staff because they have the budget. Community banks can't.

Then COVID-19 and the pandemic shutdown came along. Community banks ensured that every person in the U.S. got their paycheck through the paycheck protection program (PPP). Money moved at the community bank level, not the mega-bank level. It was unprecedented.

What we are seeing now is a grassroots trend. People saw how banks stepped up and wanted to ensure that the local community bank would not disappear.

Why is it bad that there are fewer community banks? What is their role in small-town communities?

Big banks don't see the value in loaning local small businesses the money they need to grow and build. They won't make loans for less than a specific dollar amount. But if the big banks don't do those loans, who will? Who will continue to support local businesses and school districts? Are big banks going to put their name on a scoreboard or hand out water at a community event?

We need community banks because small businesses can't get loans anywhere else. In places without a community bank, small businesses are not doing well. The entire community withers because it loses jobs that could have kept people there. To see it, all you have to do is look at the main street in a town with a community bank, then in a town without one. The one with the community bank will be vibrant. The one without is going to be the complete opposite.

What can community banks do to protect themselves?

In 2022, BankDirector released a Bank M&A survey. The survey asked bankers to identify the three main reasons they might be forced to sell. The answer was:

1. Inability to provide a competitive return.
2. Inability to keep up with the digital evolution.
3. Inability to operate efficiently.

Fintechs can help solve all three things, but some Fintechs harm more than they help. Since consultants don't necessarily do what is right for community banks, they need someone to help them identify the good guys.

A big part of competitive returns, digital evolution and efficient operations involves developing a more diversified income stream. Bankers Helping Bankers can identify good partners and connect community banks with good fintechs. If a community bank wants to go down a specific path, we help them with a playbook and tell them about other banks that are doing the same thing. That way, they can find efficiencies, implement better workflows and robotic processes, offer digital bank services, and connect with Banking as a Service (BaaS) banks.

One of the stories I tell on the stage is a catastrophic story about VyStar Credit Union that is still playing out. Very recently, it was the 13th largest credit union in the nation and had $12.4 billion in assets and 822,000 customers. Management wanted to convert to direct banking on the internet, so they talked to consultants about a digital-forward cloud-based solution.

In April 2021, VyStar invested in a fintech named Nymbus Credit Union Service Organization (CUSO). They invested $20 million, the largest fintech investment on file. In July 2021, three months after that investment, VyStar

> What we are seeing now is a grassroots trend. People saw how the banks stepped up and wanted to ensure that the local community bank would not disappear.

selected Nymbus as their mobile online banker, and in October 2021, Nymbus moved into VyStar's office.

May 13, 2022, was conversion day. The site went down, and VyStar's internet banking was dead in the water. It stayed down for 12 days, until May 25. Vystar told the customers access was back, but we collected screenshots from customers that said differently. We have one where the customer's position in line was 93,162. VyStar members filed the first set of complaints on June 3, 2022. On June 6, a screenshot showed someone's position in line was 2,466. On July 4, 2022, someone said VyStar hates its members and that it sent them into ruin to increase its member base.

.

Months later, VyStar members are still experiencing technical issues. People could not access their account information, and the credit union missed payments and deposits. One member called VyStar the Deathstar, and others promised to end their membership. Vystar was supposed to acquire Heritage Bank; the management at Heritage Bank backed out of the deal and said, "We aren't going to let you slaughter us."

This story about Nymbus and Vystar shows that consultants don't necessarily do what is right for community banks. Nymbus is an example of bad fintech. If VyStar were a community bank instead of a credit union, we would have told its management, when the information would have done some good, that Nymbus had zero live customers using its mobile online banking system.

We feel bad for the credit union and its customers, but this story underscores how important it is for there to be someone out there helping community banks identify who the good guys with good products are.

What should state and federal legislatures be doing to protect community banks?

Federal and state legislatures have made it hard for community banks to survive, so advocacy on the national and state levels matters because it ensures that new legislation will help community banks instead of hurting them. We talk to legislators about the value of community banks. We educate them about best practices, and then they make better choices in the laws they write.

What are the strengths of big banks? What is the correct role for them?

Banking isn't a one-size-fits-all business. Big banks are a good space for big corporate organizations because they are set up to handle the biggest customers. Community banks excel at handling customers that are too small for the big banks. Big banks and community banks can exist together if they all focus on their strengths.

Why can't big banks provide the same services as community banks?

The scale is wrong, which makes them too slow to be helpful.

How do big banks and community banks complement each other?

Big banks should be for big customers, and leave community banks to help the rest of us.

Do you have any last words?

Bankers Helping Bankers can help your community bank. Community banks are good at loans and delivery, but 10 years ago, they didn't have the resources available that are available now. The big boys already have those tools; now, we need to level the playing field and improve our use of innovative technology. If we succeed, we can ensure your charter won't go away.

Leveling the playing field means finding ways to cooperate with corporate fintechs. We need a good ecosystem so we can survive. The Bankers Helping Bankers program creates that ecosystem. It gives bankers a tool to help them get connected to the right people.

We have to come together because community banks are important. For all of us to survive, we need to work as a community and support each other. I don't want any charters to go away, including the bank down the street, because when community banks disappear, there's a negative effect on local businesses, jobs and school districts. Too many banks are gone. Let's make sure we keep the rest of them alive.