

2019

Journal of
Community Bank
Case Studies



Preface

Journal of Community Bank Case Studies

Volume 4

The Journal of Community Bank Case Studies is an independent, adjudicated journal of case studies authored by undergraduate college students. The goal of this journal is to showcase the work of the top undergraduate student teams that participate in the annual Community Bank Case Study Competition, a national competition facilitated by the Conference of State Bank Supervisors. The competition partners undergraduate student teams with community banks to conduct original case studies focused on various topics. This year's competition focuses on how the Economic Growth, Regulatory Relief and Consumer Protection Act has helped community banks foster economic growth.

This fourth volume of the Journal of Community Bank Case Studies includes the top four written submissions from the 2019 Community Bank Case Study Competition. The authors of the papers represent student teams from Juniata College, Eastern Kentucky University, University of Tennessee at Martin, and Utah Valley University.

About

Conference of State Bank Supervisors

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking and financial regulators from all 50 states, the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

Established in 1902 as the National Association of Supervisors of State Banks, CSBS is uniquely positioned as the only national organization dedicated to protecting and advancing the nation's dual-banking system.

For more than a century, CSBS has given state supervisors a national forum to coordinate supervision and develop policy related to their regulated entities. CSBS also provides training to state banking and financial regulators.





Letter

from John W. Ryan

President & CEO
Conference of State Bank Supervisors

On behalf of the Conference of State Bank Supervisors, I am pleased to present the *Journal of Community Bank Case Studies, Volume IV*.

This publication showcases the outstanding work of the top undergraduate student teams who entered the 2019 Community Bank Case Study Competition.

The information they provide offers a deep look into how a nationwide issue impacts the local community. This year, student teams examined how the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 has helped community banks foster economic growth. Their findings are particularly interesting, as the law contains several provisions designed to help community banks foster economic growth.

This is the fifth year of our competition. It has grown from four student teams the first year to a competition of 58 undergraduate teams representing 44 colleges and universities this year. This year, we have four top teams, with a tie for third place.

Our competition encourages young adults to engage in an experiential learning opportunity that allows them to network with local banks. The community banking industry and policymakers benefit from their solid work.

It is for these reasons that I am pleased to present student papers in this Journal of Community Bank Case Studies.

Sincerely,

John W. Ryan

A handwritten signature in black ink that reads "John W. Ryan". The signature is fluid and cursive, matching the printed name above it.

President and CEO

Conference of State Bank Supervisors

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Executive Summaries

Juniata College

During Kish Bank's (Kish) 120-year history, it has weathered a number of economic contractions and real estate bubbles, including the Great Depression and the Great Recession. Management, in its 2008 Annual Report, alluded to the fact that severe recessions had historically been followed by periods of exceptional growth for the bank. Based on an analysis of its financial performance in the period from 2014 to 2018, this is also true of the most recent crisis.

In the period since the Great Recession, the bank concentrated its efforts on its core values, putting the community and its customer's interests center stage. This focus recognized and underscored that; a community bank and the communities it serves are inseparable and; to meet the needs of its customers Kish must be service-oriented and ahead of the technological curve. The result of Kish's unwavering commitment to these values has enabled Kish to grow its customer base and take advantage of the recent consolidation in the banking industry.

However, achieving favorable financial results has not been without challenges. The economic decline precipitated by the 2008 recession, coupled with the enactment of the 2010 Dodd-Frank legislation were two such challenges. The latter, which sought to prevent the recurrence of the 2008 financial crisis, implemented strict rules and regulations on the banking sector. These rules and regulations did not discriminate on the basis of size, notwithstanding

that it was the actions of the larger banks and non-bank mortgage brokers which had led to the crisis. The resulting regulatory burden has proven to be extremely onerous for smaller banks, in particular, community banks such as Kish.

In 2018, the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) was intended to scale back the impact of these regulations on community banks. Many politicians referenced EGRRCPA as primarily benefiting community banks. Former House Speaker, Paul Ryan, heralded the passage of the law as a step toward "freeing our economy from overregulation" while also referring to smaller banks as "engines of growth" who lend to small businesses and are "vital for millions of Americans who participate in our economy" (Rappeport and Flitter).

According to the 2018 Congressional Research Service (CRS) Report on EGRRCPA, advocates of the legislation contend it provides necessary and targeted regulatory relief and engenders economic growth while providing increased consumer protections. Those who oppose it argue the legislation unnecessarily diminishes important Dodd-Frank protections which will benefit large and profitable banks. This research paper studies the impact which EGRRCPA has had, or may have, on the regulatory burden of Kish, both in the period since its enactment and in the future.

Our findings suggest that the Dodd-Frank approach of ‘one size’ fits all was not appropriate and that while EGRRCPA legislation provides a more tailored approach to regulation, it is possible to ‘fall between two stools’. While the progress of the 2018 legislative changes are welcomed and are seen by Kish as a step in the right direction, the benefits to the bank have been and will be minimal. The direct benefits aside, Kish executives

suggest that there are indirect benefits, including greater regulatory transparency, progress towards a tailored approach to regulating community banks, and a more open and constructive dialogue between regulators and community banks.

The report which follows will expand on these points and will highlight possible legislative changes that could be more advantageous for Kish.

Eastern Kentucky University *Executive Summary*

The Dodd Frank Act was the most significant banking legislation since the Glass Steagall Act. It was meant to reign in the largest financial institutions but had an unintended victim: Community Banks.

Since the passage of Dodd Frank, community banks across the nation have been burdened by regulation with compliance costs rising to 24% of net income and the loss of nearly a quarter of deposit share.

Kentucky is fortunate to have leaders at the forefront of community banking issues. This project provided our team with the opportunity to work with the Kentucky Bankers Association and to conduct face-to-face interviews with the Kentucky Commissioner of Financial Institutions, Charles Vice, U.S. Representative Andy Barr (KY) and U.S. Senate Leader Mitch McConnell (KY). Representative Barr and Senate Leader McConnell met with our team members

to share the experience of working with the bipartisan EGRRCPA legislation. The bipartisan negotiation process lost some important provisions of the originally drafted version of Senate Bill 2155, but the final Bill still provided regulatory relief to community banks across the nation.

Our bank partner for the case study was Kentucky Bank, based in Paris, KY. The Kentucky Bank management team opened their doors and their minds to us in exploring this important topic. Our regulatory burden assessment indicates that the greatest Dodd Frank regulatory burdens on the bank are TRID, HMDA and Customer Due Diligence. Kentucky Bank anticipates potential financial benefit from EGRRCPA provisions including simplified capital, small bank holding company threshold, qualified mortgage and the 18-month exam cycle. Kentucky Bank provided a Provisions Chart (Figure 2) that estimates



the financial statement impact projections for relevant EGRRCPA provisions. It is difficult to quantify the projected financial statement impact of the simplified capital and small bank company threshold provisions because Kentucky Bank does not plan to utilize them in the near term. The most significant projected benefit results from the qualified mortgage provision. The HMDA provision will result in additional expense instead of savings because Kentucky Bank exceeds the 500-mortgage threshold.

Future reform considerations suggested by Kentucky Bank include: re-evaluation of CRA Peer Grouping, re-consideration of BSA thresholds and review of Reg E and PCI liability for financial institutions versus merchants and card processors. Kentucky Bank executives explained that regulation since Dodd Frank has not enhanced the customer experience as the bank strives to support its mission of providing premier customer service.

Community banks realized significant quantifiable benefit from the Tax Cuts and Jobs Act of 2017, which Kentucky Bank utilized to increase community donations by 177% and increase non-executive salaries for 35% of employees. Our economic impact analysis indicates that additional tax benefit through wage increases could increase GDP by over \$5 Billion.

In an era of rapid emergence of fintechs, non-banks and challenger banks, reform that promotes innovation while maintaining consumer protection will be essential for community banks to continue their mission of providing the best experience for local customers. Initiatives including CSBS Vision 2020, the FDIC Office of Innovation and Alloy Labs have been formed to set a strong foundation for the future of community banking.

This case study profiles FirstBank, headquartered in Nashville, Tennessee, by focusing on the impact of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), enacted May 24, 2018, on FirstBank's operations and community betterment. The mission, vision, and values of FirstBank are aligned to provide its customers the highest degree of service. In 1984, FirstBank began as a single branch in Scott's Hill, Tennessee, population approximately 668 people, and has grown into a \$5.1 billion entity as of year-end 2018 with markets located throughout Tennessee, northern Alabama, and northern Georgia. Because of the unique community banking story of FirstBank and its exceptional growth, FirstBank has the resources and experience to provide the personalized service that is true to its community banking roots. The strategy of FirstBank is to empower its market presidents to make decisions for their respective markets, thus allowing FirstBank to utilize local knowledge and insight to flourish in each market. FirstBank keeps the communities at the heart of day-to-day operations and decision-making.

FirstBank is an elite financial performer. FirstBank outperforms its peer group across multiple financial benchmarks and is a well-capitalized bank. Although regulatory and compliance costs are burdensome to community banks of FirstBank's size, FirstBank strives to continue its elite financial performance and comply with all state and federal regulations.

The relatively large monetary and time requirements of regulation and compliance put community banks like FirstBank at a disadvantage. FirstBank's annual compliance cost is between 5.3% - 9.8% of the bank's non-interest expenses (Durham). FirstBank's Risk Department, as well as all employees, is highly dedicated to both compliance requirements and the overall soundness of FirstBank.

FirstBank plans to utilize the EGRRCPA provisions that are relevant to a bank of its size, complexity, and operations. FirstBank sees potential relief from the following provisions: capital classification, the Volcker Rule, reciprocal deposits classification, and appraisal limitations. Section VI includes discussion of these provisions.

Going forward, FirstBank expects the provisions of EGRRCPA to give limited compliance cost relief and hopes future legislation will provide more relief for banks with assets between \$3 billion and \$10 billion. FirstBank will utilize all applicable relief to better serve its customers and communities as customers are one of FirstBank's major priorities.

In the heart of Utah stands the headquarters of the state's largest community bank. Bank of American Fork was founded in 1913 and has grown into a \$2.2 billion publicly traded bank titled People's Utah Bancorp. People's Utah Bancorp is the holding company for People's Intermountain Bank which is comprised of three divisions: Bank of American Fork, Lewiston State Bank, and People's Town and Country Bank.

2018 was a record-breaking year financially for People's Intermountain Bank. Net income increased 105% to \$40.6 million over 2017, return on average assets increased 81.7% to 1.9% over 2017, and return on average equity, EPS, and interest margins are at historic highs. In 2017, the bank announced acquisitions of seven branches of Banner Bank in the State of Utah as well as a merger with Town and Country Bank in southern Utah. This strategic move coupled with a robust economy is largely responsible for the increase in financial performance.

Congress passed the "Dodd-Frank Wall Street Reform and Consumer Protection Act" in July of 2010. This piece of legislature tightened new regulations of all federal, financial regulatory agencies. The intent of this law was to protect banks from the reckless practices preceding the Great Recession. Many community banks found these regulations overbearing.

In May of 2018, S. 2155, "Economic Growth, Regulatory Relief, and Consumer Protection Act" (EGRRCPA), was passed. EGRRCPA was intended to offer some regulatory relief for federally regulated financial institutions through amending past acts and creating new legislation.

This study finds that S. 2155 had minimal effect on People's Intermountain Bank with the exception of the change in exam cycle from 12 to 18 months. Due to strong capital structure and following prudent lending and portfolio management practices, People's Intermountain Bank is not affected by legislative changes in EGRRCPA.



1ST PLACE

Juniata College

Students:

David Hibner

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‘Too Big to Fail’ ‘Too Small to Succeed’ and the ‘Piggy (Bank) in the Middle’

Faculty Advisor:

Dr. Sinéad Gallagher

Background

Kish Bancorp, Inc. is headquartered in Belleville, a small town of fewer than 2,000 residents in the Kishacoquillas Valley, known locally as Kish Valley after which the company was named. Kish, the banking subsidiary of Kish Bancorp, Inc., was formed in 1935 through the merger of Farmers National Bank of Belleville and The Belleville National Bank, both of which can be traced back to the early 20th century. For almost 120 years, Kish and its predecessors have been a vital part of the communities they serve in central Pennsylvania and the surrounding areas.

From modest beginnings, Kish is now a high performing and fast growing community bank with 16 offices throughout Centre, Huntingdon, and Mifflin Counties. It serves a potential population of approximately 250,000 people and has total assets of over \$850 million. The success of the bank seems to result from a steadfast commitment to its client centric business model and embracing change to better serve its client base. These areas are the key drivers and focus of the

Kish management team who appreciate the special niche which community banks serve and are fully invested in establishing personal relationships with its customers. Indeed, it is these relationships and local knowledge that allow the bank to successfully lend to smaller businesses, many of whom would not meet the exacting metrics of the larger banks. It is the intimacy of the client relationship which sets Kish apart from the competition and has enabled it to succeed in times of economic downturn and uncertainty.

Additionally, Kish is committed to giving back to the communities in which it operates. This is evident in many ways from the monetary donations it makes to local organizations and charities to the importance it places on the Kish team being actively involved in their communities. The latter is exemplified by Kish granting employees three days of paid time off to volunteer their time for the betterment of their communities.

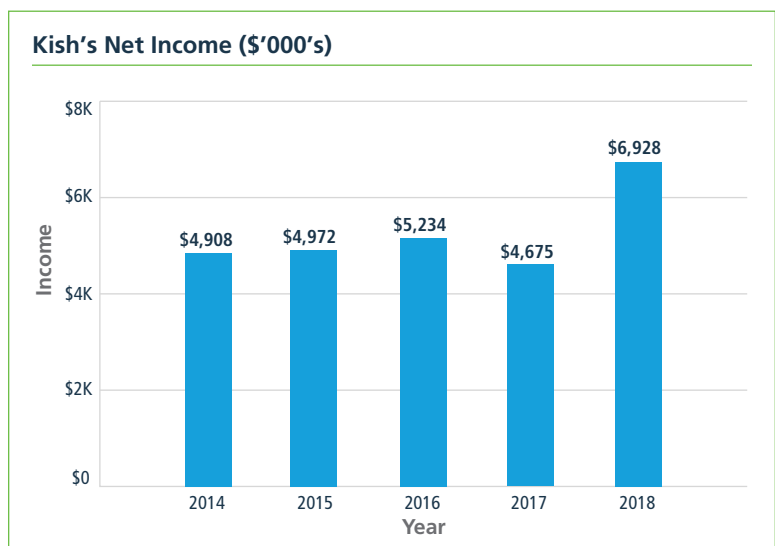
Financial Analysis

Earnings Performance

Through a review of Kish’s Uniform Bank Performance Report (UBPR), the bank has seen strong growth in earnings over the last five years, rising from a baseline of \$4.9 million in 2014 to a record \$6.8 million in 2018. Kish’s growth was generated organically without acquisition and comes primarily from Kish’s traditional banking activities but

is enhanced by the diversity of nonbanking services that it offers to its local communities. Some of this performance can only be seen when looking at the consolidated holding company results of Kish Bancorp, Inc which are not shown in the UBPR data.

Kish’s year-over-year (YOY) earnings and growth are shown below, with 2018 earnings increasing by an impressive 46%¹ over the prior year. Chairman and CEO, Mr. Bill Hayes attributes this stellar performance to a combination of factors: an increase in loan volume, continued growth in the economy, a reduction in the tax rate and the long-term strategic focus, over many years, on the diversified services which the company offers. Additionally, the growth in loans could not be achieved without attracting additional core funding which came about as a result of various promotions and Kish’s ‘Expect More’ promise.



¹ This can be adjusted downward to 32% when once-off charges to the 2017 financials are eliminated—these charges depressed the 2017 results and arose due to the reduced corporate tax rate announced in the Tax Cuts and Jobs Act 2017.

The stated earnings drop in 2017 resulted from a special accounting treatment as part of the Tax Cuts and Jobs Act. Sr. VP, Accounting and Controls Manager, Mr. Douglas Baxter alluded to this dip saying it resulted from income adjustments due to deferred tax assets and loan write-offs. Kish management also decided to pass along the benefits of the Tax Cuts and Jobs Act to their employees through the payment of a \$1,000 bonus. Although YOY earnings in 2017 were -10.68%, as seen in the table below, it is interesting to note that the number reduces to -3.79% before taxes.

Kish's YOY Earnings	2015	2016	2017	2018
Increase/Decrease	1.30%	5.27%	-10.68%	46.05%

While YOY earnings for Kish tell one story, we also wanted a benchmark with which to compare its performance. For this purpose, we used Peer Group 5² (PG5), which is the current

peer group for Kish. In this comparison, various income and expense figures were analyzed (see table below) and are presented as a percentage of average assets for each of the years 2014 to 2018 inclusive.

One highlight from the comparison is the close alignment of Kish's interest income to that of its peer group in the 5-year period under review. However, as Kish's interest expense is higher, this resulted in Kish having a lower return on assets, as compared to PG5. While the reduction in Kish's net

interest income is somewhat compensated for by its higher noninterest income percentage, this is outweighed by Kish's higher noninterest expenses.

When combined, these factors translated into a lower overall net income figure for Kish, as a percentage of average assets, as measured against its peer group (.82% versus

Comparison of Income and Expenses (as a % of Average Assets) — Kish versus PG5

	2014		2015		2016		2017		2018	
	Kish	PG5	Kish	PG5	Kish	PG5	Kish	PG5	Kish	PG5
Interest Income	3.85%	3.97%	3.83%	3.92%	3.87%	3.94%	3.98%	4.04%	4.15%	4.27%
Interest Expense	0.66%	0.43%	0.63%	0.40%	0.63%	0.40%	0.69%	0.44%	0.89%	0.61%
Net Interest Income	3.19%	3.53%	3.20%	3.51%	3.25%	3.53%	3.29%	3.59%	3.26%	3.65%
Noninterest Income	0.87%	0.75%	0.88%	0.76%	0.85%	0.76%	0.80%	0.72%	0.87%	0.71%
Noninterest Expense	2.96%	2.89%	3.03%	2.86%	3.06%	2.84%	3.07%	2.80%	3.01%	2.81%
Net Income³	0.76%	0.91%	0.73%	0.93%	0.74%	0.93%	0.61%	0.90%	0.82%	1.14%

- 2 Peer Group 5 consists of Insured commercial banks having assets between \$300 million and \$1 billion.
- 3 The net income used is that as adjusted for taxes with respect to S Corporations. These corporations are not taxed at the corporate level but at the personal level—their net income must therefore be adjusted to include an estimate of the taxes payable on income.

At this time, Kish plans to continue to focus on organic growth rather than growth through bank acquisition.

1.14% in 2018). Nonetheless, it must be kept in mind that Kish, in the period from 2014 to 2018, experienced a slightly higher increase in assets when contrasted with PG5. On speaking with Mr. Baxter about this figure, he advised that Kish plans to see a return on assets (after deducting investment securities which are mark to market) of 0.80% in 2019 and that the long-term goal is to increase it to over 1.00%.

In analyzing the positive performance of noninterest income for Kish, this income was found to come from a number of sources. It primarily consists of service fee income on deposit accounts, gains on investment securities as well as income generated from non-core banking activities such as property and casualty insurance sales, travel agency commissions, wealth management revenue, and employee benefits consulting services. While there were fluctuations in the level of gains, most other sources of income were relatively stable over the 5-year period with benefits consulting being

acquired in 2018, and adding almost \$.5 million to Kish's income.

A further review of noninterest expenses was conducted as this was higher for Kish than the peer group average. The most significant expenditure in this category is salaries and employee benefits which in 2018 accounted for 60.8% (58.7% in 2014). In the period under consideration, there was an increase in absolute salary expenses stemming from building the team to support growth and preparing for the succession of many key roles. Additionally, the expansion of the company into different service areas added to this expense. Kish's President and Chief Operating Officer, Mr. Greg Hayes also noted the impact of state bank 'shares tax'. Banks in Pennsylvania are required to pay Pennsylvania 'shares tax', a tax that is imposed on the bank's level of capital, as opposed to a traditional state business income tax. Thus, higher capital levels that were imposed on Pennsylvania banks following the Great Recession create a much higher tax burden that is independent of whether or not the bank is generating any net income.

The addition of ancillary services by the company in the period under review also prompted the question of potential acquisitions and/or mergers. At this time, Kish plans to continue to focus on organic growth rather than growth through bank acquisition.

The last earnings indicator considered was return on equity (ROE), as presented in the Annual Report for Kish Bancorp, Inc. With the rise in net income outpacing growth in equity over the 5-year span, ROE increased

from 9.5% in 2014 to 10.7% in 2018. Nonetheless, the intervening years saw a decrease in ROE as compared to the 2014 figure. Though comparative ROE data was not available for PG5 at the unconsolidated bank level, Hassan and Hippler suggest that while the average community bank ROE was previously 12.1% (versus 14.7% percent for non-community banks) this had declined in the years after the Great Recession due to additional regulatory burdens and a more constrained economic environment.. Their analysis would seem to hold true for Kish, although Kish has historically been ranked in

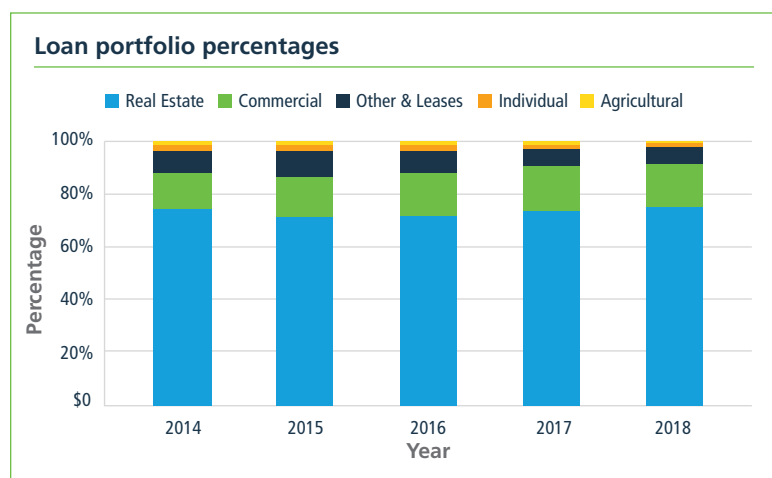
the Top 200 most profitable community banks (based on a three-year average of ROE) by American Banker Magazine.

Loan Portfolio Composition

The vast majority of Kish’s 2018 loan portfolio is comprised of real estate loans, which accounts for 76.39% of its portfolio. More specifically, residential real estate loans equates to 42.28% of the portfolio while the balance of 34.11% is commercial real estate loans. In terms of size, these are followed by commercial and industrial loans at 16.00%, other loans and leases at

6.53%, individual loans at 1.31%, and agricultural loans at 0.82%. As indicated above, Kish has maintained a relatively consistent composition in its portfolio, in percentage terms, over time.

However, what the above chart fails to show is the significant growth in Kish’s loan book in that timeframe. To highlight and present a comprehensive analysis of this growth, the table below breaks down



	2014		2015		2016		2017		2018		Overall % increase
	\$m	%	\$m	%	\$m	%	\$m	%	\$m		
Real Estate	314.0	2.9%	323.1	10.5%	357.1	19.0%	425.1	13.3%	481.7	53.4%	
Commercial	57.0	20.9%	68.9	15.4%	79.5	20.7%	95.9	5.2%	100.9	77.1%	
Other & Leases	36.7	25.0%	45.9	-7.4%	42.5	-6.3%	39.8	3.3%	41.2	12.1%	
Individual	8.1	16.4%	9.4	24.3%	11.7	-17.7%	9.6	-14.3%	8.3	2.1%	
Agricultural	4.3	17.4%	5.1	-5.8%	4.8	14.5%	6.0	-6.3%	5.2	18.6%	
Total	420.2	7.7%	452.5	9.5%	495.6	16.2%	576.0	11%	637.3	51.7%	

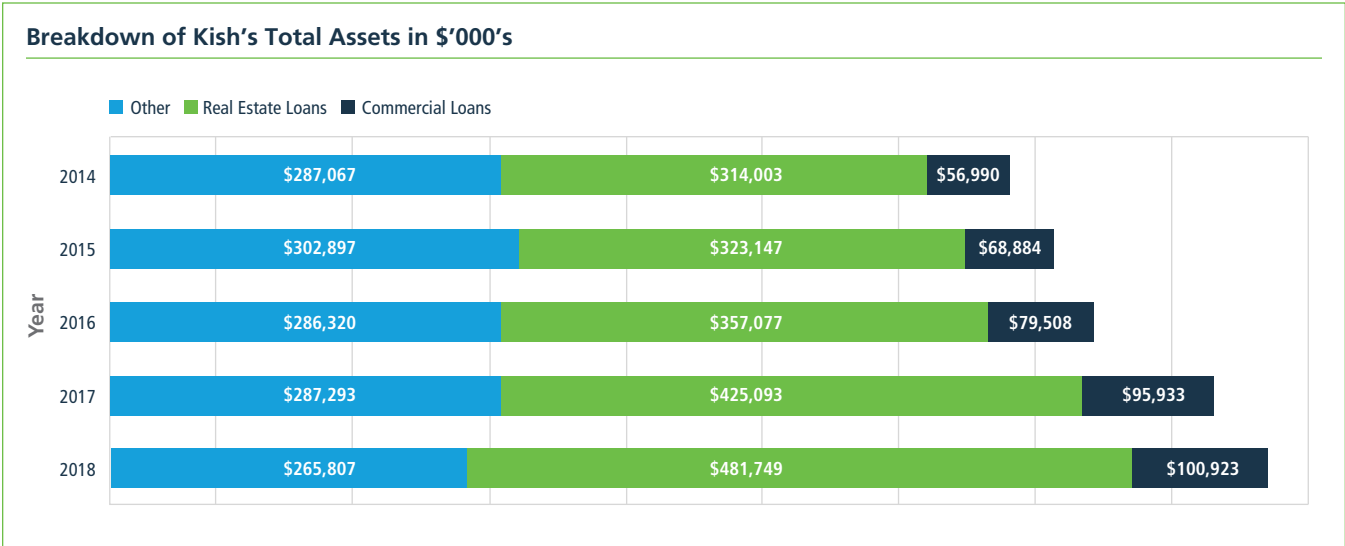
the loan book, in dollar terms, for each major loan category and indicates the YOY increase (or decrease) in these figures since 2014. Over the 5-year period, the major growth categories have been real estate loans and commercial lending.

Asset Growth

Kish has seen a significant increase in its asset base since 2014, driven solely by organic growth. In the 5-year period to 2018, assets rose by 29% — from \$658 million to \$848.5 million, bringing the bank close to the \$1 billion threshold, which it expects to exceed in the not too distant future. This increase corresponds with a relatively consistent rise in Kish’s loan portfolio, which

has risen by 52% in the same period. As alluded to, the predominant growth sectors in the bank’s loan portfolio are real estate and commercial loans, which have grown by just over \$200 million since 2014 – almost the same as the overall asset increase.

Kish’s YOY asset growth is indicated in the table below, together with comparatives for PG5. It can be noted that on a cumulative basis Kish’s growth is marginally ahead of PG5, however, it lagged behind for all years except 2017 which saw Kish almost double the growth in assets as compared to PG5. This can be attributed to an upsurge in Kish’s real estate and commercial loans as evidenced in the subsequent figure.



Kish’s total assets (in \$’000’s) and YOY % increase compared to PG5

	2014	2015	2016	2017	2018	Total increase
Kish	\$658,060 4.69%	\$694,928 5.60%	\$722,905 4.03%	\$808,319 11.82%	\$848,479 4.97%	\$190,419 31.11%
Peer Group 5	6.49%	6.34%	6.35%	6.00%	5.62%	30.80%

Kish expects to continue this loan growth in the future, but not at the same pace as in the past five years. Mr. Baxter projects loan growth to be around 8% in 2019, compared to 11% in 2018. The slowdown in the economy is expected to impact on growth in 2019 and has been factored into the projected 8% figure. Notwithstanding the potential slowdown, Mr. Collins, Kish’s Chief Credit Officer, believes that there is some insulation from economic downturn in the State College market, which sees significant investment in the surrounding area due to its

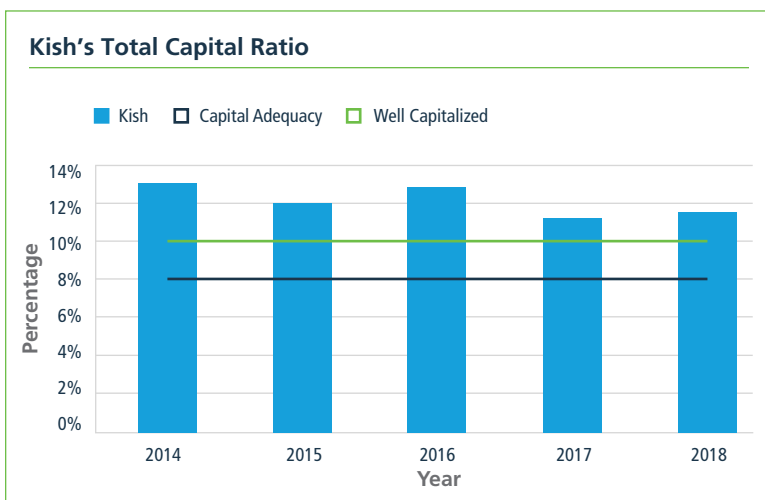
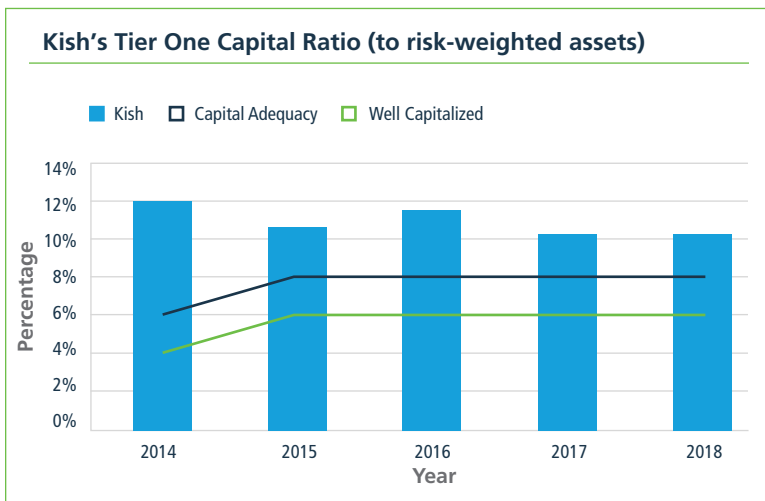
proximity to various Penn State University campuses.

Capital Levels and Planning

Kish has experienced some fluctuation in its Tier I Capital Ratio in the period from 2014 to 2018 with an overall decrease of 1.4%. Nonetheless, the figure greatly exceeds Basel III’s requirement of 6% (4% in 2014) and is comfortably above the level at which it can be considered ‘well capitalized’.

An almost identical trend was identified in the bank’s Total Capital Ratio for the same period and while this is again significantly above the level to be considered well capitalized, it is in the lower percentiles as compared to other banks. In conclusion, though Kish is considered well capitalized by regulatory standards, it does lag behind its peer group in this respect. However, this is not a cause for concern, as Kish is not in need of a ‘war chest’ for acquisitions, and due to its continued focus on organic growth, is generating capital through retained earnings at a significant rate to support this growth. Due to the fact that capital is a significant area of regulatory scrutiny it is something that the bank manages very tightly and reviews on regular basis through in-depth stress testing.

With respect to future planning, the bank is focused on innovation through technology in support of their customers expanding needs



and preferences. By executing the Vision for Kish 2020, developed by Mr. Greg Hayes, Kish is building for the future. Through the construction of the Kish Innovation Center, Mr. Bill Hayes explains Greg’s vision for this facility to “enhance the digital delivery of banking services in an environment that is much lower cost and less dependent on physical bricks and mortar”. As such, it will combine the banks traditional customer relationship approach with the needs of the younger generation of digital natives, whose lives revolve around technology, allowing it to maintain competitiveness in an ever-changing world. Kish management anticipates that the facility will also enhance the community by attracting other businesses to the area, leading to additional development and prosperity.

Liquidity

Liquidity is one of the most important factors in managing a community bank. Over the past five years, Kish has had to manage its liquidity position as it increased its loan portfolio. As the figure indicates, Kish has increased its loans to deposits ratio in each of the past 5 years, relative

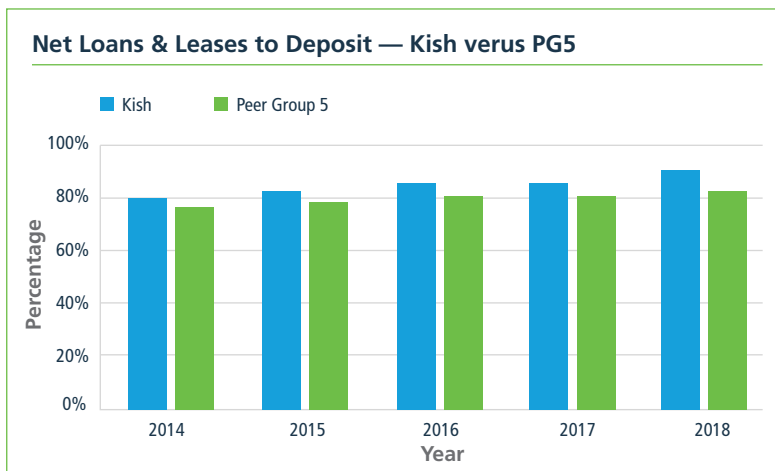
to peers. In 2014, Kish’s loans/deposits ratio was 81.36%, rising to 92.11% in 2018. A similar trend is evident in Kish’s peer group, however, the increase for Kish is more pronounced. Mr. Baxter stated that loan growth has negatively impacted liquidity for all banks and has resulted in increased competition for deposits. Kish continues to manage its liquidity position during the period of economic expansion and loan growth and will focus on maintaining a stable loans to deposit ratio in the future.

In conclusion, Kish’s financial performance over the last 5 years has been exceptional. This has been aided by an unwavering commitment to its core values and a strong economic environment resulting in a significant increase in its asset base. Kish’s current financial position, the diversification of its activities and its forward-thinking management team has helped to ensure the sustainability of the company going forward. Having analyzed Kish from a financial perspective, our attention now turns to the burden which regulatory compliance placed on it following Dodd-Frank.

Regulatory Compliance and Burden Assessment

The Dodd-Frank Act

The enactment of Dodd-Frank resulted in significant changes for Kish. While Mr. Bill Hayes acknowledges that certain regulations were required to ensure consistency across lenders, the Act imposed additional burdens, both in terms of personnel requirements and more



As a community bank, Kish emphasizes lending to individuals and small businesses.

importantly, costs for Kish's customers. These increased costs made it more difficult for Kish to compete with larger banks for 'typical' customers because Kish could not benefit from the economies of scale that applied to the larger banks. Thus, Kish's size was a factor in this regard. This section looks at Dodd-Frank at a micro level by concentrating on some of the more onerous requirements imposed on Kish through an overview of its impact from management's perspective.

Mortgage Loan Origination

As a community bank, Kish emphasizes lending to individuals and small businesses. This is evident from the breakdown of its loan portfolio as is the fact that it specializes in originating residential mortgage loans, some of which it keeps on its balance sheet, while others are sold to the secondary mortgage market. Furthermore, as Ms. Debra Weikel, Sr. VP, Retail Credit Officer explains, detailed knowledge of Kish's communities, its immediate economic environment and its customers allows it to provide funds to customers who would not

meet the more stringent criteria set out by the larger banks.

Ms. Weikel estimates that in 2008, the cost associated with originating a mortgage was approximately \$300. The passage of Dodd-Frank and other initiatives emanating from it, such as increased requirements under Home Mortgage Disclosure Adjustment (HMDA), resulted in an almost three-fold increase in origination costs. As this cost is passed on to the customer, it was a very significant rise, specifically for those purchasing homes in Kish's rural communities where home values are under \$100,000 (compared to larger markets where average home values are over \$300,000). These burdens also lead to an uneven playing field in the banking sector where efficiencies cannot be achieved by smaller banks. Not only did the cost of originating mortgages increase, but the time required to originate mortgage loans and complete associated underwriting, disclosure, and documentation more than doubled. This was due to a number of factors: the Truth in Lending Act relating to a customer's ability to pay (ATP); the replacement of the 'HUD' statement, previously completed by loan settlement attorneys, with a closing statement completed by the bank; and the collection of additional data points from customers before loans could be originated.

With respect to the data points required under HMDA, this went from 26 data fields, which equated to an approximate cost of \$15,000 per year, to over 100 fields where the cost is close to \$50,000 per year. The introduction of more fields also increased the probability

for compliance violation errors. This is more likely to negatively impact smaller banks, such as Kish, due to the increase percentage of data points for a lower number of loans. The one positive from the additional field requirement is that it allows for more transparency between banks—the information is publicly available thus facilitating data analysis on competitors and providing information on their product offering.

Capital Requirements

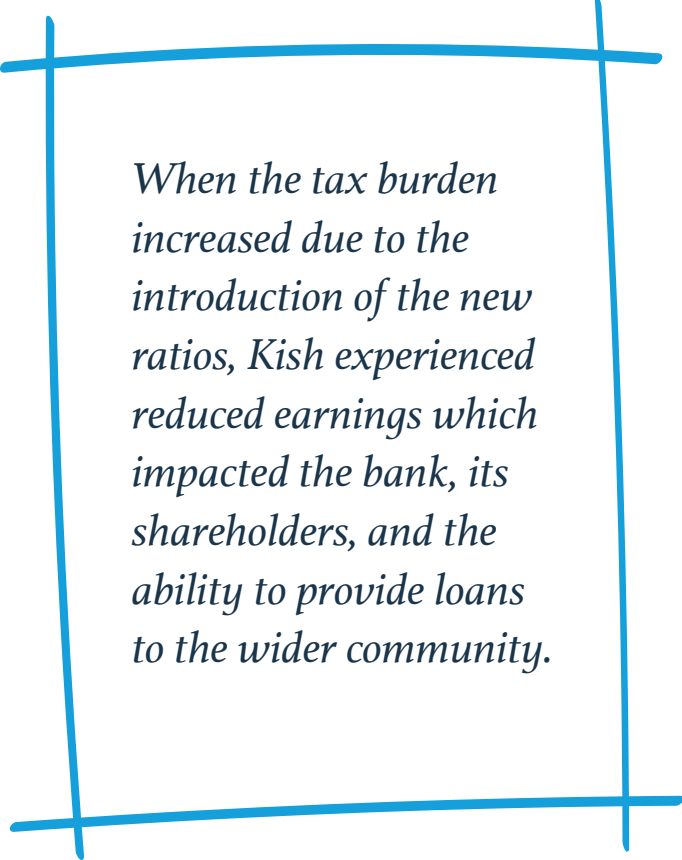
After the passage of Dodd-Frank, all banks undertaking transactions beyond the most basic banking activities were required to maintain a minimum risk-based capital ratio of 10% (regulatory capital divided by risk weighted assets) and a minimum leverage ratio (regulatory capital divided by average total assets) of 5%. Furthermore, what constituted ‘capital’ was more narrowly defined in the legislation (CRS).

While the purpose of these requirements was to ensure that banks were liquid enough to cover unexpected losses and liabilities, this meant that Kish had to set aside the necessary amount of assets as a buffer for these potential losses and liabilities or reduce its loan book. The consequences of either option meant that Kish had less money available to circulate in the form of loans, which was magnified and thus impacted exponentially on the communities it serves. This reduced Kish’s ability to maximize profit from lending. As the majority of the bank’s shareholders are local to the areas it serves, this had further ramifications for these communities. Furthermore, at the state level,

Pennsylvanian banks are required to pay a capital tax when they increase their capital level. This meant that Kish’s expenses increased when more capital was reserved. When the tax burden increased due to the introduction of the new ratios, Kish experienced reduced earnings which impacted the bank, its shareholders, and the ability to provide loans to the wider community.

Call Report Requirement

Under Dodd-Frank, Kish was also required to submit additional information in its call reports each quarter. According to the FDIC, institutions submit call report data to the regulatory agencies each quarter for monitoring the condition, performance, and risk profile



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of individual institutions and the industry as a whole (Consolidated Reports). This is one of the many ways regulators assess the financial health of the banking sector. Kish currently completes about 90 pages in call reports each quarter, compared to 15 pages in the 1980's. According to Mr. Baxter, this regulatory burden has resulted in 40 hours of additional work to construct the report each quarter.

Stress Testing

Under Dodd-Frank, stress testing is a form of regulation that requires "both bank managers and regulators to understand what would happen to banking institutions if they were subjected to exceptional but plausible macroeconomic shocks" (Kapinos et al.).

Under current regulation, Kish is not required to complete stress testing like larger banks. However, regulators have strongly suggested that community banks stress test regardless of regulation. Currently, Kish stress tests its

balance sheets, capital ratios, liquidity, and cash. For the balance sheet and capital, stress testing is completed once a year while tests on liquidity and cash are preformed once a month. One of the problems related to stress testing is the differences between regulatory models and the internally developed models used by many community banks. Regulators want to see that Kish is generating the same results as the regulatory stress testing model, but the use of different models means that the results may vary.

Resources Dedicated to Regulatory Compliance

Currently, Kish has three full-time employees dedicated to regulatory compliance compared to one full-time employee working on such requirements pre-2008. Mr. Robert Sunday III, VP, Compliance Officer has been with Kish since before the Great Recession, and prior to the passage of Dodd-Frank, his responsibilities included areas outside of the very specific compliance focus he has now. With the issuance of many new regulations, all of his time is devoted to ensuring that the bank keeps abreast of these regulations and complies with ongoing implementation of new rules under Dodd-Frank. He has also added two full-time employees to assist him in this endeavor.

To supplement Kish's in-house team, it employs the services of three different third-party providers for support with regulatory compliance. The first is the American Bankers Association (ABA) which provides consulting services to Kish. Mr. Sunday sees this as invaluable as the ABA interacts with many

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banks of a similar size to Kish, and therefore knows and advises on the type of issues that Kish encounters. Another firm that Kish uses is CAPCO which provides similar consulting services. This is also an important resource for Kish, as Kish's size precludes it from having the breadth of in-house expertise that is available to the larger banks. The last service that Kish outsources is post-closing data review, related to HMDA. Due to the significant penalty of reporting HMDA information inaccurately, Kish must engage in significant file review for HMDA compliance. As Kish continues to grow, the bank plans to hire additional regulatory compliance personnel to meet the added burdens that accompany an increase in asset size above the \$1 billion mark.

The bank estimates that the direct increase in the cost of regulatory compliance, following Dodd-Frank, is in the region of \$80,000 per year. However, this does not include the extra personnel hours required to complete the more detailed call reports, or the time which senior management spends on oversight of regulatory issues.

Other Resource Implications

In addition to the more onerous regulations outlined above, the overall requirements imposed by the regulations diminished the ability of management to focus on its core business, serving its customers. According to Mr. Bill Hayes, the more burdensome reporting and compliance requirements meant that Kish was not directing its resources to benefit economic activities, which would enhance the communities in which it operates. Additionally,

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management did not see the regulations as adding value for their customers or providing them with additional protections. Kish was simply not 'too big to fail' requiring the kind of oversight that Dodd-Frank imposed, nor was it engaged in activities like the unregulated mortgage brokers that operated pre Dodd-Frank. This view concurs with the perspective shared by Kahn who stated that community banks pose little systemic risk to the US's financial system.

Indeed, the general feeling is that the reaction to the 2008 financial crisis and the enactment of the legislation significantly impacted the speed of the economic recovery. By interfering with the banking industry, Mr. Bill Hayes suggests that the regulations constrained Kish's ability to respond to a normalized recovery by curtailing the provision of funding and liquidity. While this may not have been the intent of the legislation, it also highlights the issues at play between the legislation itself and the way in which laws are interpreted into rule making and

then regulated under, which can stray far from the original intention of the legislation. A study undertaken by McLaughlin et al. shows that in the case of Dodd-Frank, 848 pages of legislation have resulted in over 27,000 associated restrictions.

Kish feels that the regulatory burden imposed on it has resulted in a loss of competitive advantage, primarily due to its size, but with the passage of EGRRCPA, Kish management was hopeful that the provisions contained in the legislation would address the imbalance. Our attention now turns to whether this hope was or will be actualized.

Relevant EGRRCPA Provisions and Impact

EGRRCPA was enacted on May 24, 2018 and was designed to relieve stress on the banking

industry, specifically smaller community banks, from the harsh requirements and regulations initiated by the Dodd-Frank Act. Dodd-Frank came shortly after the Great Recession and its main purpose was to protect consumers and prevent another economic collapse. Almost a decade later, US Congress passed EGRRCPA to lighten regulations, with smaller banks as the primary focus. However, the legislation enacted was a ‘watered down’ version of the originally anticipated legislation.

The following table outlines the provisions within EGRRCPA which do (Y) or do not (N) impact Kish, as well as those which may do so but cannot yet be determined (TBD). We ranked these in order of potential monetary benefit for Kish and we discuss those provisions which we feel are of significance for Kish.

Impact of EGRRCPA Provisions on Kish

Provision	Benefit Y/N	Balance Sheet	Net Income	RANK
Simplified capital rules	TBD	None	None	8
Small bank holding company threshold	Yes	None	None	2
Highly volatile CRE	TBD	None	None	6
Qualified mortgage	Yes	None	None	4
Escrow requirements	No	None	None	7
HMDA	No	None	None	3
Waiting period on credit offers	Yes	None	None	5
Exam cycle	No	None	None	9
Volcker rule	No	None	None	10
Short form call report	Yes	None	\$500-\$1,000 per quarter	1

Simplified Capital Rules

EGRRCPA contains many provisions which could potentially be of benefit to community banks. However, at present, there is still uncertainty as to how some of these provisions will translate into regulations. For instance, one of the main provisions which could impact smaller banks is the Simplified Capital Rules. In the legislation, capital is defined as tangible equity, for example, ownership shares, and the purpose of capital rules is to ensure that banks have a ‘cushion’ to absorb losses without fear of failure. The thrust of the new legislation is to allow banks, with less than \$10 billion in assets, to opt for one simple capital ratio (called the Community Bank Leverage Ratio (CBLR)) rather than having to comply with the multiple risk-based measures currently in place. In order to opt for the simplified approach, a bank must be “well capitalized”. To this end, EGRRCPA states that the CBLR should be between 8% and 10% (capital to unweighted assets), as compared to the general leverage ratio requirement of 5% (CRS).

The CBLR is drawing criticism from banks and state regulators who say it may be too complicated to implement and that the proposed 9% mid-point is too high (Witkowski). Kish, in tandem with other banks, is in a ‘holding pattern’ with respect to the CBLR as there are still too many uncertainties surrounding the provision and how it will be regulated. While Kish’s asset level falls within the required level for CBLR, management is unsure how this part of EGRRCPA could be of benefit to the bank. As of now, Kish believes

While Kish’s asset level falls within the required level for CBLR, management is unsure how this part of EGRRCPA could be of benefit to the bank.

that it will have no effect on the 2019 balance sheet or net income figure.

Mr. Baxter sees the CBLR as a potential “double-edged sword”. Although it would eliminate the time required to calculate the other risk-based capital metrics, the bank is comfortable with both their calculation and what it must do to ensure that it stays within the parameters, that is, above 5%. Moreover, Kish prefers to maintain a ‘buffer’ of at least 50 basis points above the minimum capital ratio, something which most banks do, according to Chris Cole, Executive VP and Sr. Regulatory Counsel at the ICBA. Thus, as the new minimum may be at the relatively high 9% level, an additional buffer may be required which could cause issues for Kish. This is echoed by Sr. VP, Policy at the CSBS, James Cooper who said that it is “a pretty big jump, to go from a 5% to a 9% ratio” (Witkowski). Consequently, if Kish were to opt for the CBLR,

Kish is optimistic that benefits will ensue from the regulation that focuses on call reports in EGRRCPA

it may necessitate holding additional capital and not having the ability to leverage that capital would impact on lending and slow shareholder return, which is the antithesis of what the legislation is seeking to achieve.

Furthermore, Mr. Baxter noted that falling under the level set by the regulator could cause “increased regulatory scrutiny, additional expense, and restrictions on the bank” putting Kish at a disadvantage vis-a-vis its peers, which the bank is keen to avoid. Using the traditional calculations “allows for lower levels of risk-based capital” and the ability to remain “well capitalized”. Additionally, while the legislation provides for opting into the new CBLR, it is unclear if it would be possible to opt out at a later stage and then opt in again or if opting in obliges the bank to continue to use the CBLR for all periods going forward.

Another complication identified by Mr. Greg Hayes, which could dovetail with the CBLR, is a change to US GAAP concerning losses, known as Current Expected Credit Losses (CECL).

Deloitte cautions that CECL is likely to be one of the most significant accounting projects of the next five years and that banks must think strategically about CECL’s far-reaching implications. Essentially, the standard creates a new model for determining the allowance for credit losses (Lundberg and Miller). Current US GAAP stipulates that only those losses that have been incurred to date need to be reflected in the financial statements. In contrast, the new requirements call for an estimate of expected losses over the life of the asset to be included instead. The underlying premise of CECL is that the allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset (Lundberg and Miller).

Short Form Report

While the ‘jury is still out’ on any potential positive impacts stemming from the Simplified Capital Rules, Kish is optimistic that benefits will ensue from the regulation that focuses on call reports in EGRRCPA. Indeed, of all the provisions, this had been identified as the one that helps Kish out the most financially. Formerly, all banks were required to submit a detailed report at the end of every financial quarter. The forms or “schedules” of the report include information on the bank’s income, expenses, and balance sheet which had to be entered manually by Kish personnel. The reports were then used by agencies to monitor the safety and soundness of financial institutions (FDIC).

EGRRCPA now directs regulators to shorten and simplify the reports required by Kish

in the first and third quarter of each year as Kish's assets are under the \$5 billion threshold stipulated for this provision. Kish can take advantage of this by eliminating some of the forms and schedules heretofore required. This means Kish will save money, which it estimates at \$500-\$1,000 per quarter, as it will take less time for Kish personnel to complete the short form call report for each of these two quarters.

Qualified Mortgages

Under EGRRCPA, a new qualified mortgage (QM) compliance option is available for mortgages which Kish originates, as it falls under the stipulated \$10 billion in assets limit. Under the ATR provisions imposed by Dodd-Frank, Kish is required to verify and document that a borrower has the ability to repay their mortgage, at the time it is taken out. Failure to comply with the ATR provisions normally leaves the bank open to legal liability. However, under the new QM option, if Kish considers and documents a borrower's debts, incomes, and other financial resources, it minimizes the legal risk involved in residential mortgage lending activities (CRS). One of the other conditions which must be met to avail of this new option is that Kish must retain the mortgage in its portfolio for the duration of the mortgage.

It is envisaged that the expansion of the QM definition will reduce the burden on Kish with respect to underwriting requirements. This may expand its customer base to include atypical borrowers who would not have met the previous more exacting underwriting requirements but are otherwise creditworthy. Thus, while it will be in Kish's best interests to

ensure that the underwriting is thorough (given that it must retain the mortgage in its portfolio and would therefore suffer the loss in the event of default) some benefits may ensue from this provision: a lowering of potential legal risk going forward and an ability to serve atypical borrowers.

Other EGRRCPA Provisions


There are a number of EGRRCPA provisions which did not impact Kish. These include the rollback of the Volker Rule, the extension of the exam cycle to 18 months and the HMDA rollback. With respect to the former, Kish had divested itself of assets which would have fallen within the realm of the Volker Rule approximately 3 years ago. As regards the exam cycle, Kish was already on an 18-month exam cycle prior to the enactment of EGRRCPA and thus there was no change for the bank. However, had EGRRCPA not increased the asset threshold for the 18-month exam cycle from \$1 billion to \$3 billion, Kish would have had a shorter exam cycle once it breached

There are a number of EGRRCPA provisions which did not impact Kish.

the \$1 billion asset mark, which it expects to do in the short to medium term. Lastly, Kish narrowly missed out on the relaxation of HMDA requirements. The rollback applied to banks that originated fewer than 500 closed-end mortgage loans in each of the preceding two years, however, as Kish originated 524 in the prior year, they were ineligible – another example of the bank ‘falling between the cracks’.

Looking Forward

As noted, the path to economic recovery following the 2008 financial crisis was hampered—not only by Dodd-Frank but by its translation into rules and regulations. This interaction is also something which Kish management feels is important with respect to EGRRCPA. While Kish welcomes the spirit of EGRRCPA, the way that this is transformed into rules and regulators may have significant implications for the bank, specifically with respect to the Simplified Capital Rules. Thus, the more open dialogue and communication that exists in the current climate between



Kish’s concentration on home loans is a vital service the bank provides to its community

regulators and banks is important. Mr. Greg Hayes feels that rule makers have heard the concerns of the smaller “banks and the issues we face” which has been advantageous, not just for the bank but for “our communities and the economic recovery, specifically within our local communities and our small businesses”.

While it is evident from the foregoing section that the EGRRCPA provisions are unlikely to have a significant impact on Kish, as they do not serve to alleviate the pressures of regulation, this is mainly due to Kish’s size. Additionally, the provisions may also negatively impact Kish as they allow banks of a larger size to reduce their costs, effecting Kish’s competitiveness. Although the legislation does not classify Kish as a “big bank”, it also loses out in some areas, for example HMDA, due to the number of mortgages it originates relative to its size. Nonetheless, Kish’s concentration on home loans is a vital service the bank provides to its community, not just for potential homeowners but because of its contribution to a healthy and vibrant housing market, which has wider economic implications. In this respect, it is unlikely that Kish is alone as some other community banks may also lose out on the HMDA rollback if they too have a larger proportion of home loans relative to their overall loan portfolio.

Not surprisingly, during our discussions with Kish’s management a common theme emerged which centered on the need for additional regulatory right-sizing and a more “fine-tuned” piece of legislation. The belief is that there needs to be more policy, which helps to identify

who or what should be protected and then determine the legislation off of that, rather than trying to fix many different problems at once, or at least impact many different areas at once.

This more tailored approach would recognize that a bank with \$1 billion in assets is a very different beast from one with \$10 billion, yet current legislation does not recognize this important distinction. Those at the upper end of this scale are more complex organizations, engaging in a wide range of activities and “provide a variety of services to their customers, but often rely on hard financial information, computer models, and centralized decision-making as the basis for conducting business” (Kahn). In contrast, those on the Kish end of the scale engage in less complex transactions and are focused on relationship banking. Therefore, Kish believes that further tailoring of legislation and a more common-sense approach would be very advantageous for all parties involved—it would be better for community banks in general and could lead to lower operating costs, which in turn then lowers costs for consumers—a true win-win situation. Nonetheless, Kish do not see additional legislative change coming on stream anytime soon, given where we are in the election cycle and the change of control within the House, which is seen as less amenable to the banking community in general.

Though legislative changes are seen as unlikely, there are still possibilities with respect to rule making for EGRRCPA. As detailed earlier, most important to Kish, and other community banks, is that pertaining to the CBLR. The banking industry is actively seeking the lower

Smaller community banks, such as Kish, struggle to compete with larger banks because of the laws and regulations in place.

8% threshold for the CBLR, which the ICBA estimates could allow 600 more banks to opt for this ratio (Witkowski), including Kish.

Impact on Community

Smaller community banks, such as Kish, struggle to compete with larger banks because of the laws and regulations in place. These laws and regulations currently affect the small to medium sized banks to a greater extent: their cost of entry into certain markets are prohibitive and they cannot achieve the cost spread that larger banks can. Thus, the ability to ‘fine-tune’ legislation could have a number of impacts, not just for Kish, but for its customers. Mr. Bill Hayes suggests that a more tailored approach to regulation could “unleash the economic engine” in which banks play a vital role and facilitate Kish’s ability to serve its communities, assist small businesses reach their full potential and increase home ownership.

Essentially, if legislative changes result in either Kish holding less capital or reducing its

Kish has set its sights firmly on the future and the potential requirements of both its current and potential customers.

expenses, it enhances Kish's ability to leverage its capital by lending to the communities in which it operates. This in turn leads to the money multiplier or snowball effect. For example: a capital infusion by Kish to a small business may result in an increase in the number of employees within the business; leading to an increase in the disposable income of the new employees; who then spend that money in, say, a local shop; leading to an increase in demand for goods and perhaps pay increases for the shop employees; who then have additional disposable income, etc.. In this regard, Mr. Greg Hayes also refers to 'the rule of 10' which posits that for community banks, every \$1 of capital eliminates \$10 of loans. So, if Kish is required to increase capital by \$1 million, that is \$10 million it is not lending to small businesses and home owners in its communities.

Furthermore, a decrease in regulatory burden and scrutiny would not only decrease Kish's expenses and/or capital but would level

the playing field allowing Kish to be more competitive. Moreover, decreased regulation would free up time and resources to allow management to fully focus its efforts on its business going forward.

Customers and Changing Competition

As a smaller bank, Kish is not always able to offer the same products for the same prices to its customers. Therefore, it must find other ways to differentiate itself from the competition. This is achieved through exemplary customer service and a focus on technology and innovation to better serve its customer base. These encompass the core values operationalized by Kish as it realizes that the future of the banking industry is changing as are the preferences of a younger generation of customers. Consequently, Kish has set its sights firmly on the future and the potential requirements of both its current and potential customers. To this end, construction on the Kish Innovation Center, which it anticipates will house over 100 team members, is underway and is due to be completed in early 2020. This move away from Kish's more traditional branch structure will lower its cost base and augment its current digital delivery of banking services to its customers.

In making these changes, customer relationships will continue to be priority. Being a customer at a big bank may appear to have more benefits, however as issues arise throughout a customer's tenure with a bank, the real benefit of a local caring relationship is missing. Kish, with its in-depth knowledge of the local business environment and its customers, help their customers through

difficult times, when other banks may be more inclined to ‘cut them loose’. Where many businesses may have floundered, Kish has been there to see them through which reflects its “commitment to go the distance required to help clients reach their goals in ways that are not just smart and successful, but welcoming and hospitable” (Kish Annual Report, 2016).

Kish is also very engaged in its local communities, as are members of the Kish team. For example, in response to the Tax Cuts and Jobs Act, Kish announced an expansion of its support for community and charitable organizations through an increase of \$50,000, and also provides additional annual leave to its team when they volunteer their time for the betterment of their communities. These again emphasize Kish’s philosophy—in the words of Mr. Bill Hayes, “we believe in our hearts that we can make the lives of our team members, our clients, and our communities better.”


Conclusion

Our brief for this paper was to consider Dodd-Frank’s impact on Kish, as well as the impact of the subsequent rollback provisions contained in the 2018 EGRRCPA legislation. Our findings suggest that Dodd-Frank imposed many additional regulatory burdens on Kish which resulted in increased expenses, the requirement to maintain a higher capital ratio, and reduced the banks capacity to direct resources to activities which would benefit its communities.

Furthermore, while EGRRCPA has the potential to benefit some banks, Kish’s financial benefits are limited. Kish happens to fall within a size

range where it is neither small enough nor large enough to reap the rewards the legislation can offer. Consequently, Kish would like to see more tailored regulations relative to institution size and the complexity of transactions and services offered, which is absent from the current legislation.

As Hassan and Hippler assert, community banks play a vital role in providing capital to small businesses and rural communities. As such, the importance from an economic standpoint of ensuring the continuation of healthy community banks is in everyone’s interest. Though there are many factors which may impact community banks going forward, including: the potential economic slowdown, CECL requirements, and a potential increase in the Basel III ratio, we believe that Kish, with its diversification strategy and forward focused management team, is well positioned to continue to prosper into the future.



Kish happens to fall within a size range where it is neither small enough nor large enough to reap the rewards the legislation can offer.

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2ND PLACE

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Kentucky Bank: The Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA or Public Law No: 115-174)

Introduction

The Great Recession of 2008 was the result of risky lending practices, aggressive trading by investment banks, abuse of derivatives and the burst of the housing bubble. With the failure of one investment bank (Bear Stearns) and the demise of another (Lehman Brothers), markets reacted and consumers, corporations and governments around the world watched the value of their assets and investments plummet. It was decided that swift action must be taken to prevent a similar disaster and to hold financial institutions accountable for their actions and influence on the global economy. This prompted the creation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Passed by Congress in 2010, the Dodd-Frank Act is 2,223 pages and includes 398 rules, with only 39% of the rules finalized as of September 2013 (Koch 55). Dodd Frank was created to reign in the largest systemically important financial institutions but applied to community banks as well. There were many unintended consequences on community banks. This legislation, the largest since the post-depression Glass-Steagall Act, included provisions that resulted in the following consequences for community banks:

- Stricter regulations
- Increased compliance costs leading to lower profit margins
- Decreased loan revenue and constrained mortgage availability to consumers
- Increased regulation and oversight in the OTC (Over the Counter) Derivatives Market
- The Volcker Rule prohibited banks from certain types of trading

(Congressional Research Service, *The Dodd Frank Wall Street Reform and Consumer Protection Act: A Summary*).

U.S. Representative Andy Barr of Kentucky's 6th Congressional District recognizes that banking legislation was necessary at the time, but that Dodd-Frank may have gone further than necessary. "Dodd-Frank put one-size-fits-all regulation on all banks, regardless of size. All that created unintended consequences of making big banks bigger, small banks fewer, and depriving the American people of access

to financial services and products." While he concedes that banks are far better capitalized than they were 10 years ago, he says that Dodd-Frank was "the wrong solution for an important problem" (Barr).

The larger banks were able to reallocate resources to comply with the stricter regulations and absorb some of the extra costs. It was the smaller banks with smaller budgets that were the most negatively impacted by the original Dodd Frank Act.

A 2015 Harvard study conducted by Marshall Lux and Robert Greene entitled *The State and Fate of Community Banking* states that community banks survived the financial crisis with large but not detrimental losses, but shed 6 percent of U.S. banking asset share between 2006 and 2010. This study also found that since Dodd-Frank's passage, the share of assets of community banks fell by more than 12 percent (Lux and Greene 3). Scott Beyer, owner of *The Market Urbanism Report*, wrote an analysis on the study in *Forbes*, suggesting that "compliance costs disproportionately hurt" these smaller banks. His research suggested that larger institutions were more prepared financially and beyond to comply with changes in regulation while community banks lagged and faced higher average costs (Beyer).

In his March 2018 address to congress, Senate majority leader Mitch McConnell (KY) stated that compliance costs have risen to 24% of banks' net income since the Great Recession (McConnell, 00:01:18 - 00:01:35) and that deposits in community banks decreased by nearly one-

fourth in the first 4 years following the passage of Dodd-Frank (McConnell, 00:02:15 - 00:02:24). He emphasized that this issue greatly affects smaller, rural areas, because they may only have community banks in their area.

In an effort to provide regulatory relief to community banks, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) in May 2018. This Act was an attempt to decrease regulation and requirements for smaller financial institutions. The threshold of what was considered a SIFI (Systemically Important Financial Institution) was increased from \$50 billion to \$100 billion (and eventually will be \$250 billion) and only the SIFI's were still expected to follow the strictest rules (Labonte 2). Additionally, those banks with less than \$10 million in assets are now exempt from the Volcker Rule (O'Brien).

The 2018 rollback to the Dodd-Frank Act was heralded by countless financial institutions but perhaps was most welcomed by community banks. Regulatory compliance costs were expected to decrease, especially for community banks. The intended outcome was to provide more opportunity for community banks to lend to local market areas and invest more into local communities (ICBA, S. 2155 Has Been Signed 3).

We partnered with Kentucky Bank, a \$1.2 Billion community bank based in Paris, KY, to conduct a case study that allowed us to explore the real-world impact of the Great Recession, the Dodd Frank Act, the Regulatory Relief Bill as well as opportunities for strengthening the future of

community banking. Our case is summarized below, beginning with a financial analysis of Kentucky Bank.

technology to remain competitive in the complex, dynamic financial services industry. The purpose of this study is to observe Central Bank's activities involving due diligence to ensure the most innovative community banking technologies are integrated, strategically aligned, secure, and compliant with regulations.

Part I: Financial Analysis

Kentucky Bank, a subsidiary of Kentucky Bancshares, Inc. is a publicly traded community bank headquartered in Paris, Kentucky. Since its inception in 1981, Kentucky Bank has grown to a \$1.1 Billion bank by serving its local markets in Central Kentucky with depository services, wealth management and loans. We utilized FFIEC UBPR data to conduct a financial analysis of Kentucky Bank over the last 5 years compared to its peer group of banks across the nation of similar asset size. As noted in the relevant sections, Kentucky Bank's asset size crossed the threshold from FFIEC peer group 5 to peer group 4 in 2016, causing the peer average comparison to shift. For some portions of the financial analysis, we selected a small group of peer banks with similar size, structure and geographic footprint to Kentucky Bank to provide a more relevant comparison.

Earnings Performance

Kentucky Bank's net income has steadily increased over the past five years, breaking its record high with \$12.4 million in net income in

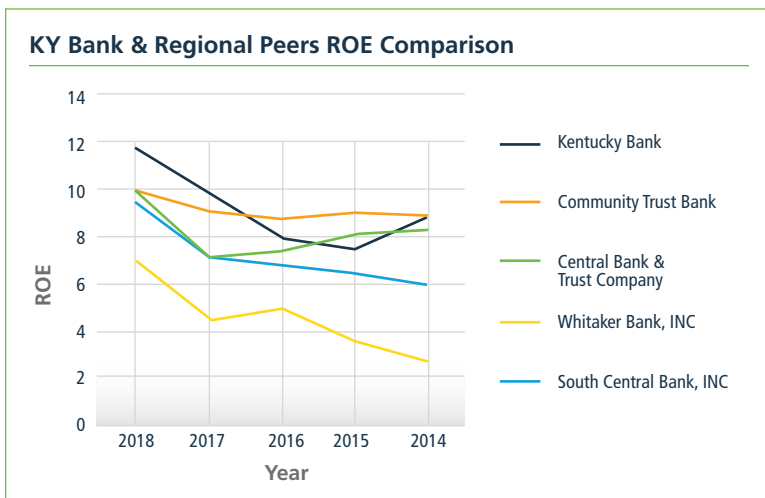
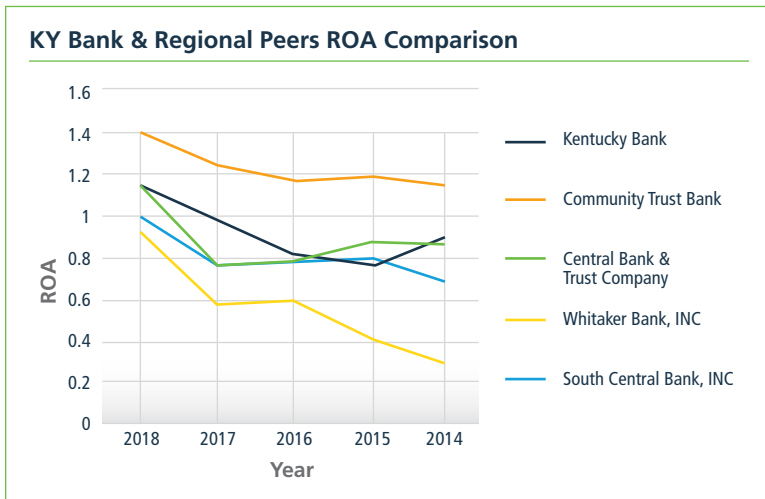
2018, or \$2.09 per common share, which was expected after an astounding 25.1% increase in 2016. Many factors have contributed to this increase, including a 6% loan growth, higher securities balance, a decrease in provision for loan loss expense, and the reduction in federal tax expense as a result of the Tax Cuts and Jobs Act of 2017. Kentucky Bank has remained competitive with peer group 5 (2014-2015) and 4 (2016-2018) banks throughout the last five years with regard to net income growth. Kentucky Bank's loan loss provision has been significantly

lower than its peer group, with two consecutive years of .05 compared to .11 (2018) and .12 (2017) of the average peer group 4.

Return on Equity (ROE) has remained competitive with peer banks throughout the last five years. ROE has increased significantly the past two years, slightly exceeding the peer group average. Kentucky Bank Return on Assets (ROA) also surpassed peer banks in 2017 after three years of having slightly lower ROA than peer group 4 (2014-2015) and peer group 5 (2016). Kentucky Banks Net Interest Margin has remained around the 50th percentile of the peer group average since 2014.

For a more in-depth analysis we chose 4 peer banks of similar size and structure serving a similar market area to compare with Kentucky Bank, which reveals the same reactions to market fluctuations as regional peers, performing near the 50th percentile for ROE and steadily improving ROA each year to reach 1.0 in 2017 and increase to 1.17 in 2018.

Kentucky Bank, as a publicly traded bank had 5,955,242 shares of Common Stock outstanding and 532 holders of record of its Common Stock as of December 31, 2018 (10-K). Kentucky Bank expects record earnings again in 2019. The Banks' strategic plan for 2019 includes plans to evaluate technology services and to improve profitability through increased wealth management income and other non-interest income.

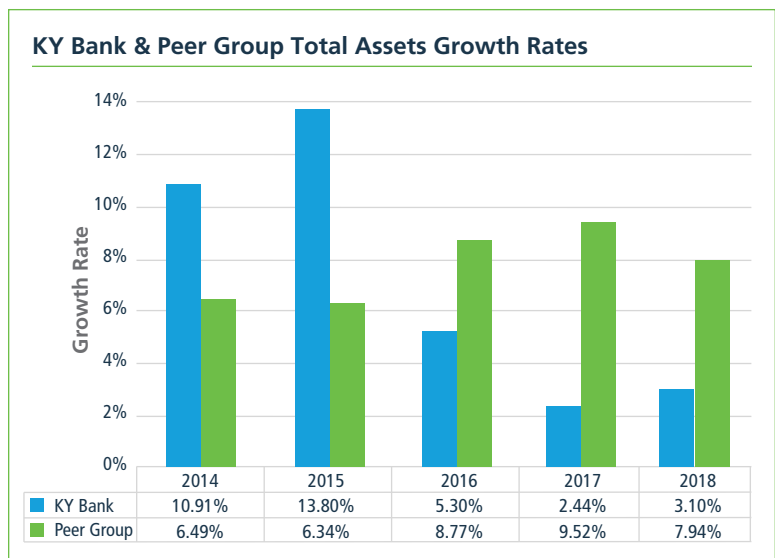
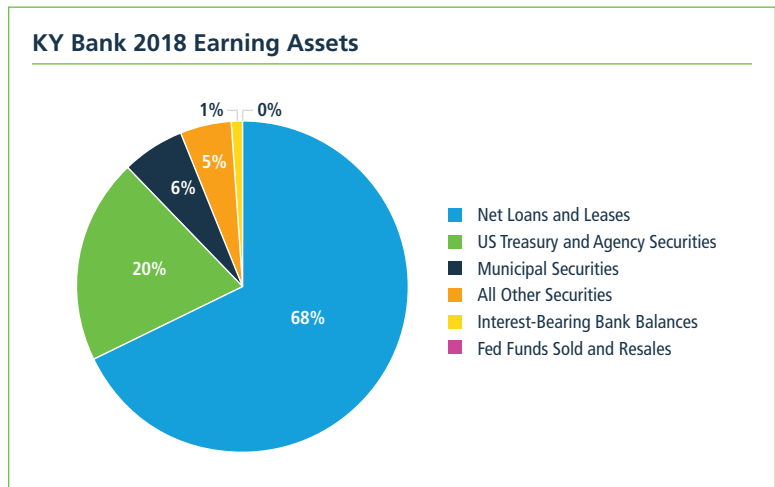
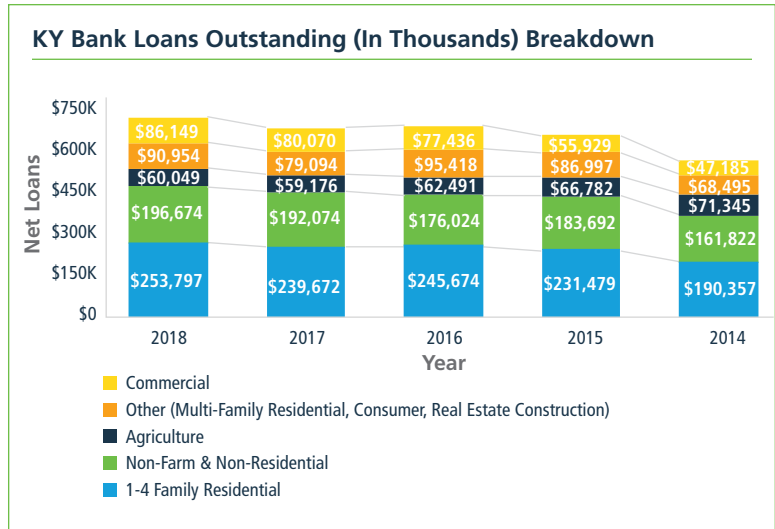


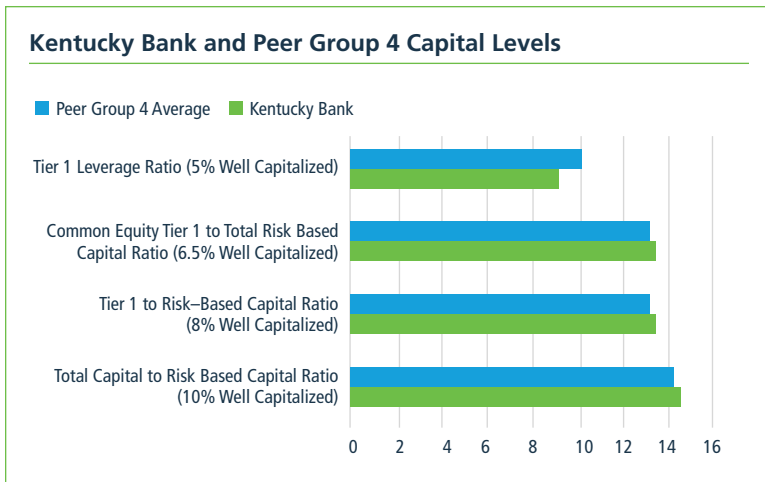
Loan Portfolio Composition

Kentucky Bank has focused on providing commercial, agricultural, and real estate loans to its commercial customers while primarily emphasizing small-to-medium-sized industrial, service and agricultural businesses. Kentucky Bank has also remained a leading provider of consumer mortgage loans in Central Kentucky communities for the past five years. Approximately 81% of Kentucky Bank's loans are secured by real estate as of December 2018. In 2016 alone, Kentucky Bank saw an increase of 16% in mortgage loans. This trend continued through 2017 and 2018. The UBPR shows Kentucky Banks 2018 Real Estate (Non-Farm and Non-Residential and 1-4 Family Residential) and Commercial Loans at an all-time high for the past five years with \$555,890 and \$54,267 respectively. The growth in 2018 Real Estate Loans was a 5.65% increase over the 2017 total of \$526,148.

Asset Growth

Kentucky bank realized an increase in total assets and total earning assets in 2014-2018. Of the earning assets, net loans and leases increased by \$146,151 from 2014 to 2018, and saw an annual increase in every year except 2017 (a slight decrease of \$7,144 from 2016). Net loans and





leases and US Treasury and agency securities both saw significant increases from 2017 to 2018, while municipal securities decreased. Net loans and leases as a percentage of total assets were consistently lower for Kentucky Bank compared to the peer group. The asset growth rate for Kentucky Bank was significantly higher than peer group average, exceeding the 80th percentile when compared to Peer Group 5 (\$300Million - \$1 Billion). After transitioning to Peer Group 4 in 2016, at the low end of the \$1Billion - \$3Billion peer group, the growth rate was lower than peer group average for 2016-2018.

Capital Levels

The Office of the Comptroller of the Currency’s Prompt Corrective Action thresholds reflect that a well-capitalized bank will have at or above the following minimum ratios: (FDIC): Total Capital to Risk Based Capital ratio = 10%; Tier 1 to Risk Based Capital Ratio = 8%; Common Equity Tier I to Total Risk Based Capital Ratio = 6.5%; and Tier I Leverage Ratio = 5%. Kentucky Bank is above all minimum ratios set forth in the Basel III requirements for “well capitalized”

banks. Kentucky Bank is above its counterparts in Peer Group 4 in all but one category, Tier 1 Leverage Ratio. This classification of being well capitalized provides a safeguard to shareholders and customers and further reflects the institution’s focus on service.

Simplified capital rules implemented with EGRRCPA in 2018 allowed for Kentucky Bank to pursue opportunities that did not meet the previous, more stringent requirements. However, Kentucky Bank advised that they will not lower bank standards to pursue this additional opportunity.

Liquidity

Kentucky Bank’s Loan-to-Deposit Ratio has hovered around 80% for the last 5 years. It has remained about 10% lower than its peer group since 2016. Industry standard loan-to-deposit ratios used to hover around sixty percent, but have climbed in recent decades to between eighty and ninety percent. Multiple factors determine why a bank chooses to remain more or less liquid than their peers. For Kentucky Bank, keeping cash on hand in case of a crisis outweighs loss of profit from loans not made.

Kentucky Bank has a higher proportion of government deposit accounts compared to peers which require collateral backing, which is why it’s pledged securities to total securities ratio has remained in the 90-95th percentile compared to peer banks. Kentucky Bank experienced loan growth of \$37,174,000 from 2017 to 2018.

Core deposits increased \$26,290,000 but large time deposits decreased by almost \$20,000,000. Investment assets decreased by \$15,180,000 from 2017 to 2018. Kentucky Bank held an additional \$31,262,000 in fully insured brokered deposits at year-end 2018 over year-end 2017 to offset the difference in loan growth and decrease in deposits.

Part II: Regulatory Compliance/ Burden Assessment

Like most community banks, Kentucky Bank is burdened by the additional compliance resources required to comply with the new regulations resulting from Dodd Frank. Kentucky Bank created an Infograph that visualizes the impact of all regulations on its bank operations (Figure 1). The infograph shows the complexities of multiple regulators and regulations explaining how small changes within a process require detailed consideration.

For Kentucky Bank, the most burdensome Dodd Frank rules were TILA-RESPA Integrated Disclosure Rules (TRID), the Home Mortgage Disclosure Act (HMDA) and customer due diligence (CDD). Kentucky Bank considered these three rules the most challenging when serving customers. During an interview, Kentucky Bank Chief Operations Officer Jim Braden stated that at the end of the day, it comes down to how the customer experience has been impacted (Braden).

When discussing bank regulation, Kentucky Bank President Louis Prichard shared concerns that customers have to go through a lot more to conduct business than they have in the past.

“We understand the balance of regulation and customer experience, but I can say that the bottom line customer experience has not been enhanced at all by regulation” (Prichard).

A result of sections 1098 and 1100A of the original act, TRID is connected to both Regulation Z and Regulation X, each known respectively as the Truth in Lending Act and the Real Estate Settlement Procedures Act. In essence, TRID is the combination of these two acts. In its integration, the “final rule” was meant to consolidate disclosures required by TILA and RESPA. Prior to Dodd-Frank, these two disclosures were required around closing time of the loan. The loan estimate and closing disclosures were meant to be simplified for both the financial institution and the customer. However, while it combined those disclosures, TRID also required additional disclosures (TILA-RESPA). According to Kentucky Bank, TRID increased the borrowers’ cost of taking out a single-family mortgage loan. Closing time for these loans increased due to the change in disclosures.

Kentucky Department of Financial Institutions Commissioner Charles Vice emphasized how TRID affected most community banks in the state. Like Kentucky Bank, most banks were forced to alter forms and processes. “Any kind of change whatsoever, in either statute or regulation, has a ripple effect on banks” (Vice). TRID—a regulation intended to simplify a process—resulted in unintended consequences of requiring more from employees and customers to complete disclosures. It also impacted other aspects of banking. COO Jim

Braden states that in the extra time it takes to close a loan, rates and terms can change, and sometimes not in the customers' favor. "Two to four days may not seem like a lot, but when you're trying to buy a house or trying to sell a house, it can definitely make an impact," (Braden). Whether they had to spend more on interest or were required to refinance or find other living arrangements during the closing process, customers were directly impacted by this rule. Kentucky Bank had direct costs as well. According to bank management, TRID required software upgrades, procedural changes and personnel training (CSBS Regulatory Burden Questions).

The Home Mortgage Disclosure Act has been enacted into law since 1975. It is not a new regulation, but changes in the Act since the financial crisis have been extremely burdensome on lenders and their institutions. HMDA is part of the Federal Reserve's Regulation C. A June 2011 mandate put HMDA


Just as the increase in required disclosures from TRID created unintended issues, a longer application process led to more costs for both the borrower and the lender.

under the control of the Consumer Financial Protection Bureau (like TRID) and also required the reporting of all public loan data. At its heart, this Act requires tracking of the demographics of loan customers (CFPB, TILA-RESPA Integrated Disclosure Rule Implementation). According to the FFIEC, HMDA helps determine whether financial institutions are affectively meeting housing needs of those in their areas of service, alerts public officials where investments are most needed in communities and identifies discriminatory lending practices (Background and Purpose). Garnering the data for HMDA requires banks to collect an abundance of information from customers when applying for loans. Changes in 2015 (clarified in 2017) to HMDA expanded the information fields required when creating mortgages. Kentucky Bank states that the post-recession HMDA changes altered requirements from around 30 fields to over 100 fields (CSBS Regulatory Burden Questions).

Just as the increase in required disclosures from TRID created unintended issues, a longer application process led to more costs for both the borrower and the lender. "If you have ever wondered why your bank is asking questions that do not seem to bear on the loan itself, there is a good chance it is HMDA related" (Braden). Field information covers everything from the age of the borrower and credit score to the customer's entire loan spread (Mortgage Bankers Association). Just as there were more resources and software required for TRID, the same was true in implementing the Home Mortgage Disclosure Act changes.

The Community Bank CEO Priorities for 2018 compiled by the American Bankers Association shares concerns from different leaders in the industry. One bank manager, concerned with accurate reporting, stated that a mistake with one data field has let to almost 250 extra man-hours of work (American Banker's Association).

Customer Due Diligence (CDD) is a major aspect of the Bank Secrecy Act (BSA). The FFIEC considers it vital in helping prevent money laundering, which is the BSA's main purpose (Customer Due Diligence-Overview). CDD is intended to alert institutions to unusual customer activity and allow them to identify suspicious transactions or behaviors. Due diligence policies require banks to fill out complete customer profiles when opening accounts, update customer information files (CIF's) on existing customers and to report unusual or suspicious activity (Customer Due Diligence Requirements for Financial Institutions). Community banks do not dispute the importance of due diligence in protecting the institution as well as customers, but some of the measures to comply can be tedious. The administrative burden multiplied with the expansion of CDD after the great recession. In the wake of the financial crisis, BSA rules were updated to "... strengthen due diligence requirements ..." according to the Federal Register (FinCen, Customer Due Diligence Requirements for Financial Institutions). The new rules required changes to identifying beneficial owners on business accounts (FinCen, Information on Complying). These changes required employees of Kentucky



The Community Bank CEO Priorities for 2018 compiled by the American Bankers Association shares concerns from different leaders in the industry.

Bank, especially tellers and customer service representatives, to undergo further training on the Bank Secrecy Act, due diligence and opening accounts to keep up with procedural changes. It took more time on behalf of the bank and the customer to open an account, since it required more documents, time, and according to our partner, "multiple trips to the Bank which can understandably be frustrating to the customer" (CSBS Regulatory Burden Questions).

In order to comply with the aforementioned regulatory changes, community banks like Kentucky Bank now have to focus many resources toward compliance. Kentucky bank itself now has 5 employees who focus specifically on regulatory compliance. Other departments in the bank outside of compliance have also implemented additional necessary training and policies. Kentucky Bank management states: "Departments throughout the bank have their own quality assurance subgroups to monitor our compliance to

Of the five provisions, the change in the definition of a qualified mortgage provides the most significant financial statement impact.

policies and regulations” (CSBS Regulatory Burden Questions). Compliance has become a responsibility of the entire bank, not just one department or team. Audits and examinations are also performed to ensure that the correct measures are being taken. Kentucky Bank has its own internal audit department to review its documents and procedures. Along with regular internal audits, the bank uses a third-party auditor conduct to 2-3 onsite examinations per year (CSBS Regulatory Burden Questions).

In addition to employee training and compliance examinations, most banks also had to implement new software as well to remain compliant with the post-recession regulation. “From a software perspective, we use at least three different pieces of monitoring software to ensure we remain fully compliant with AML/BSA, HMDA, and CRA. In addition to those software bundles, we also utilize three different loan and deposit origination software systems to ensure our disclosure documents are consistent, compliant and accurate” (CSBS Regulatory

Burden Questions). Implementing multiple software systems created expenses in licensing and time necessary to train employees.

Part III: Review of Relevant EGRRCPA Provisions

Kentucky Bank provided a Provisions Chart (Figure 2) that details the anticipated financial statement impact of five of the provisional changes within EGRRCPA. The provisions with potential financial impact on the bank are: simplified capital rules, small bank holding company threshold, qualified mortgage, HMDA and exam cycle. The bank does not plan to take advantage of the simplified capital rules or the small bank holding company threshold in the near term, but provided dollar amounts for hypothetical situations that could be possibilities in the future. Because the bank exceeds the 500-mortgage threshold, the HMDA provision will cost the bank an additional \$30,000 through software upgrades, process redesign and employee training. Changes to allow qualified mortgages to include portfolio loans and increasing the eighteen-month exam cycle for banks between \$1 billion and \$3 billion both allow Kentucky Bank to better serve customers. Of the five provisions, the change in the definition of a qualified mortgage provides the most significant financial statement impact.

Sanford Shatz concludes that lenders must recognize at least eight criteria to determine a borrower’s ability to repay: current or reasonably expected income or assets; current employment status; monthly payments on the covered transaction; monthly payments on

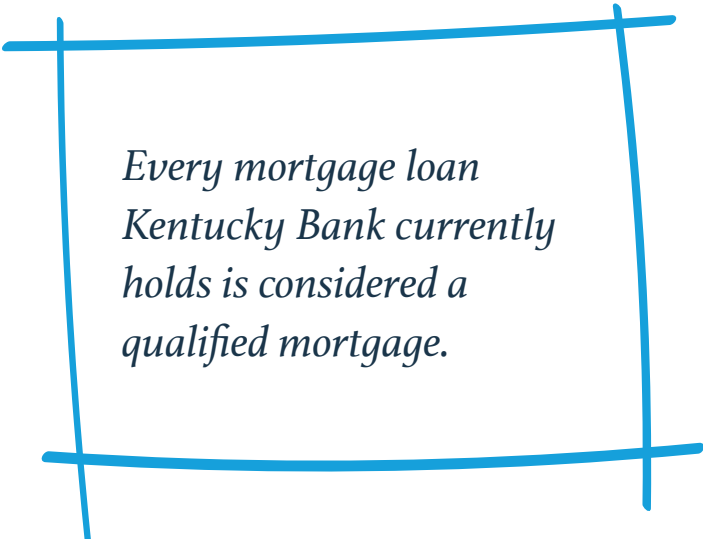
simultaneous loans; monthly payments for mortgage-related obligations; current debt, alimony, and child support; and monthly debt-to-income ratio or residual income (Shatz 2). Also, the sources of financial information lenders receive must be verifiable using copies of tax returns, W-2 or other qualified financial document.

Regulators did provide some relief from the Ability-to-Repay rule using the “qualified mortgage”. The CFPB describes a Qualified Mortgage as a loan that possesses certain features that aid a borrower in repaying his or her loan (What is a Qualified Mortgage). Some prohibited loan features include “interest only” periods, negative amortization loans, mortgage terms over thirty years, and excessive upfront points and fees. Qualified mortgages are presumed to meet Ability-to-Repay requirements easing the regulatory burden of banks that originate these loans.

With the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act, Congress redefined Qualified Mortgage status for loans held by small banks. According to Congressional Research Service, “Section 101 [of EGRRCPA] creates a new qualified mortgage compliance option for mortgages that depositories with less than \$10 billion in assets originate and hold in their portfolio” (Perkins, et al. 5). This rule change brings a new category of qualified mortgage known as a “Small Creditor Portfolio QM” which provides the same presumption of compliance with the Ability-to-Repay rule as a standard qualified mortgage would.

For Kentucky Bank, redefining the Qualified Mortgage criteria to allow portfolio loans proved helpful in avoiding increased expenses that would ultimately be passed on to the customer. Every mortgage loan Kentucky Bank currently holds is considered a qualified mortgage. These qualified mortgages are exempt from strenuous Ability-to-Repay requirements. Specifically, exemption of the bright line test regarding the debt-to-income ratio helps Kentucky Bank offer non-traditional borrowers such as self-employed borrowers (i.e. contractors with rental houses) and individuals with uneven income sources (i.e. farmers) mortgages without increasing their compliance risk and expense. Changes to QM allow Kentucky Bank to better serve customers, but it was not the only provisional change to benefit the bank.

Prior to the passage of EGRRCPA, banks were required to undergo a standard examination every twelve months. However, banks with less than \$1 billion in total consolidated assets were




Every mortgage loan Kentucky Bank currently holds is considered a qualified mortgage.

able to qualify for an extended examination cycle of eighteen months. These banks were required to meet the standards of being well capitalized, well managed, and highly rated (ICBA, S. 2155 Has Been Signed 3). The new provisional change raises the eligibility for the eighteen-month examination cycle to banks under \$3 billion in total consolidated assets that also meet the requirements (ICBA, Agencies Advance).

Community banks strive not only for cost-saving strategies, but for efficiency as well. Kentucky Bank is now on the 18-month exam cycle with the FDIC and KDFI. Kentucky Bank states, “We allocate approximately 250-350 people hours per exam. So, on average the change in exam cycle saves us between 250-350 hours every three years or approximately \$20,000 (Figure 2). Although this provision will not directly impact new customers, it will lower bank expenses.

In addition to the five provisions outlined in the Bank Provisions Chart, Kentucky Bank expects positive financial results from the



Community banks strive not only for cost-saving strategies, but for efficiency as well.

recent TRID adjustment. TRID, the TILA/RESPA Integrated Disclosure Rule, also known as the “Know before You Owe” rule, addresses federal mortgage rules under TILA and RESPA. TILA is the Truth in Lending Act, and RESPA is the Real Estate Settlement Procedures Act (TILA-RESPA). The Federal Reserve writes, “. . . under the new TRID rules, banks are being forced to lengthen the amount of time that lapses between the application and the closing, which is forcing consumers into longer, higher-cost rate lockets” (Record of Meeting 3). The most recent provisions to the act include replacing the Good Faith Estimate and early TIL disclosure with a Loan Estimate, and HUD-1. Final TIL disclosure was also replaced with a Closing Disclosure.

These provisions correct many issues with the rule (American Land Title Association). The Loan Estimate was required to have been delivered or placed in the mail no later than the third business day after receiving a customer’s application, while the Closing Disclosure was required to be provided to the customer at least three business days prior to consummation of the closing (Amerifirst Home Mortgage).

The most recent provision required compliance with the 2017 TILA-RESPA rule for mortgage applications. According to the CFPB, “The amendments relate to when a creditor may compare charges paid by or imposed on the consumer to amounts disclosed on a Closing Disclosure, instead of a Loan Estimate, to determine if an estimated closing cost was disclosed in good faith” (Federal Mortgage Disclosure Requirements). Directly relating to

community banks, the adjustment of TRID to not require a delayed closing if the APR was reduced helps prevent certain closing delays, which Kentucky Bank finds important and relevant in today's economy. The updated Closing Disclosure document for TRID that replaced the Truth in Lending Disclosure and HUD-1 was designed to help consumers and borrowers understand all of the total costs that are associated with their mortgage loan (What is a Closing Cost). These requirements applied to most closed-end consumer credit transactions that were secured by real property. Although some loan categories are exempt from the TILA-RESPA rule such as HELOCs, reverse mortgages or mortgages that are not secured by real property, the rule does still apply for certain trusts for tax and/or estate planning purposes.

Part IV: Looking Forward

Kentucky Bank has reported that EGRRCPA provisions will allow the bank to reduce regulatory burden, expense and provide better customer service. We asked the management team to provide suggestions for future bank legislation reform. In addition to Kentucky Bank's suggestions for future reform, we include proposals suggested by our research conducted for this project.

Kentucky Bank suggested CRA requirements for peer groups be evaluated. Currently, Kentucky Bank is approaching an asset size that will soon surpass \$1.3 Billion. Under existing guidelines they will soon be in the same peer group as Bank of America, an institution with over \$2 Trillion in assets. This distinction

Kentucky Bank also suggests that Bank Secrecy Act reporting thresholds be reconsidered.

suggests that any action taken by Kentucky Bank could potentially affect the market with the same magnitude as a similar action from Bank of America, resulting in an inaccurate risk assessment.

Kentucky Bank also suggests that Bank Secrecy Act reporting thresholds be reconsidered. In the 1970's, the mandatory minimum amount reported to curb illegal activities financed through banks was established at \$5,000. According to the US Bureau of Labor Statistics an amount of \$5,000 in 1975 would be equivalent to approximately \$24,400 in 2019 (CPI Inflation Calculator). Kentucky Bank states that adjusting mandatory reporting amounts would allow them to serve customers more efficiently as customers routinely process transactions exceeding \$5,000.

Credit and debit card security was also an important topic for Kentucky Bank. Specifically, they suggested Regulation E and PCI could be overhauled to place increased responsibility

Through prioritizing customer engagement, Kentucky Bank is able to evaluate local community needs and reinvest in ways that most significantly impact the region.

on merchants and card processors. Under current regulations, community banks may face unwarranted culpability regarding data breaches originating at the point of sale or afterward, potentially leading to small banks being hesitant to issue cards.

Another topic Kentucky Bank discussed was the Tax Cuts and Jobs Act of 2017. This \$1.5 trillion-dollar reform will provide impactful tax cuts to corporations and banks reducing corporate income tax from 34% to 21% (Tankersley and Peters). As a direct result of this reform, Kentucky Bank increased wages for over 35% of non-executive employees and increased community donations by 177%.

During his March 2018 U.S. Senate address, Senate Majority Leader Mitch McConnell stated “In this era of online banking and multinational corporations, smaller institutions remain uniquely able to build community connections. Community bankers get to know their residents and business owners on a personal level”

(McConnell 2018). This statement is reflected in Kentucky Bank’s personalized service to local communities and through lending to local businesses and donations to organizations that target local needs.

Through prioritizing customer engagement, Kentucky Bank is able to evaluate local community needs and reinvest in ways that most significantly impact the region. This type of outreach toward quality of life categories like health and educational services could have a profound and lasting impact on the region.

Further exploring the topic of taxation, Kentucky Bank spoke about credit unions and their market influence. Upon inception, credit unions allowed people sharing a common bond—either occupational, community or associational—to become members. This limited participation characteristic and member owned, not-for-profit business model granted special allowances from the Federal Government. The most significant allowance gave credit unions a Federal income tax exemption, which has allowed them to offer better rates, providing an attractive alternative to traditional banks (NAFCU).

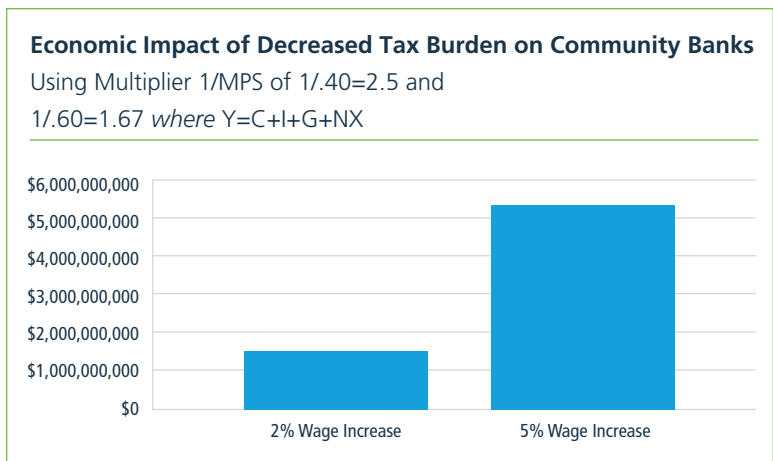
A 2017 NAFCU study explored credit union tax exemption and its impact on the economy. The study reported “Removing the credit union tax exemption would actually cost the federal government \$38 billion in lost income tax revenue over the next 10 years. GDP would be reduced by \$142 billion, and nearly 900,000 jobs would be lost over the course of next decade as well” (Feinberg and Meade 1).

By cross-referencing benefits from the 2017 tax reform and credit union tax exemption, our research suggests that tax liabilities for community banks should be reconsidered. That is, since small community banks share many similarities with credit unions, perhaps they should be required to pay less in taxes than larger banks. As a result of a lessened tax burden, community banks nationwide would likely follow Kentucky Bank's example of raising employee wages. If community bank salaries were increased by 2% to 5%, this would increase employee wages \$847,701,220 to \$2,119,253,050 raising total community bank wages to \$43,232,762,220 - \$44,504,314,050. The actual economic impact, however, would be considerably greater. To illustrate, a recipient of a wage increase will spend a portion of their new earnings on a purchase they otherwise would not make, perhaps on a home renovation. The purchase of that renovation would result in increased revenue for the materials vendor, the contracting company, the employees, etc. Each of these parties would then spend their money, continuing the cycle of consumption far beyond the initial consumer.

We can utilize a simple spending multiplier to evaluate the economic impact this increase would have on GDP. To generate the multiplier, we can estimate the marginal propensity to consume and marginal propensity to save for the employees receiving a wage increase. That is, for every dollar of newly earned income, if an employee chose to spend 60

cents and save 40 cents, their MPC would be .60 and their MPS would be .40. The formula for a simple spending multiplier is $1/MPS$. If we assume that employees would save forty to sixty cents out of every new dollar earned, we would have resultant multipliers of $1/.40=2.5$ and $1/.60=1.67$. This means that an increase in wages of two to five percent for community bank employees nationwide could result in an increase in spending of \$1,415,661,037 and up to \$5,298,132,625. This means that GDP ($Y=C+I+G+NX$ where C represents consumption) could potentially increase by over \$5 Billion if community banks were afforded a lessened tax burden than large banks and other corporations.

The topic of Financial Technology was also discussed with Kentucky Bank. The management team stressed that they are not opposed to banking technology as they invest in secure methods that allow their customers to enjoy the convenience of online banking. Instead, they spoke in reference to Fintech growth, regulation and its impact on customer service. The emergence of "non-banks" offering



financial products with speed, convenience, more credit availability and better rates than traditional banks is rapidly growing. This superiority over traditional banks could be devastating to community banks.

In a 2016 report by McKinsey and Company, it was estimated a total of 15 to 25% of banks could “be gone” by 2020 due to a combination of burdensome regulation and Fintech disruption (Zeffner). It should be noted, however, that due to their smaller size and market agility, community banks might be less affected by market disruption than their larger counterparts. For example, in response to a significant disruption a large bank would have to alter procedures and training for hundreds of branches, thousands of employees and a reassessment of hundreds of billions of dollars in assets and liabilities. On the other hand, community banks would respond by retraining fewer employees and reconciling less capital across their fewer locations.

To quantify the potential impact Fintech firms have, it has been estimated that by 2020 Fintech loan originations will reach \$90 Billion, an increase from \$25 Billion in 2015 (Di Lorenzo).

Nationally chartered fintechs and challenger banks could provide loans and financial services if community banks did not exist, but they would not give back to communities through locally aware donations or provide regional employment. In 2018 The Office of the Comptroller of the Currency announced plans to accept Fintech applications for National Bank charters under the stipulation, “. . . they would be subject only to limited safety and soundness supervision and examination would not be subject to the Community Reinvestment Act . . .” (ICBA Policy Resolution). This stipulation places no responsibility on chartered Fintech firms to reinvest in local communities.

To quantify the potential impact Fintech firms have, it has been estimated that by 2020 Fintech loan originations will reach \$90 Billion, an increase from \$25 Billion in 2015 (Di Lorenzo). Approximately 2,649 Fintech firms have been identified across 16 categories in 61 countries with 3,945 investors and \$139.8 Billion invested (Venture Scanner). Pursuant to the OCC’s announcement, Banking Tech compiled a list of 57 national challenger banks that have entered the financial market to seek chartered status. Many of those firms, like Alpha Business Bank, are exclusively looking to serve small and medium business enterprises (Andreasyan). Alpha Business Bank looks to compete directly with community banks by serving SMEs.

The Federal Reserve’s Small Business Credit Survey Report of 2016 studied businesses with less than 50 employees across 26 states and found that “. . .the results show that small banks were the most common source of credit, and

that business owners are more satisfied with small bank lenders than large bank or online sources of financing” (New York Federal Reserve).

As the OCC begins processing charter applications, Fintech firms are attempting to offer community bank style service. In digital-only form, Fintech firms cannot provide in-person, one-on-one customer interaction and understand the community. The result is a tradeoff between personal banking relationships focusing on individualized service for artificial intelligence and algorithms.

Regarding Fintech innovation and the lag between startup and regulation, the ICBA said “Financial regulation tends to follow, not anticipate, changes in the financial services industry” (Financial Technology Roadmap). Recognizing the need for updated regulation following the emergence of Fintech, the FDIC has developed a “transformative” mindset to allow community banks to remain viable and not be left behind (Barefoot). Following this, community banks have been receiving training and seizing partnership opportunities with Fintech firms. This strategy comes with the understanding that consumer opinion regarding Fintech is increasingly positive, especially amongst the younger generation. The FICO report *Millennial Banking Insights and Opportunities* reported that “Over 50% of Millennials are already using or considering payment companies like PayPal or Venmo” and that “compared to the age 50+ demographic, millennials are over 10 times more likely to consider the use of peer-to-peer lenders” (FICO 3, 5).

Community banks are cautiously exploring Fintech collaboration to remain competitive. In 2018 a group of 12 community and regional banks formed Alloy Labs Alliance to partner with startup Fintech firms. They will work toward moving their institutions into the next era of banking by studying compliance issues, business practices and providing assistance to other community banks who may not be ready to embrace Fintech (Peyton).

As community banks work toward innovation, state regulators, as the main regulators of non-banking services are working collaboratively to transform the licensing and supervision of fintechs and other non-banks offering financial services. The Conference of State Bank Supervisors’ Vision 2020 plan includes a regulatory framework for fintechs to operate in a safe and sound manner while supporting innovation among community banks and decreasing regulatory burden on community banks by coordinating federal and state regulation procedures. (Vision 2020).

In conclusion, Kentucky Bank expects positive results from EGRRCPA and it felt an immediate, significant impact from the Tax Cuts and Jobs Act of 2017. This suggests that right-sized regulations and less burdensome tax laws could be key in allowing community banks to remain viable in an increasingly competitive market. Looking forward, these factors combined with technological innovation and a continued commitment to customer and community service should result in community bank success for decades to come.

Figure 1. Kentucky Bank Infograph. 30 Jan. 2019

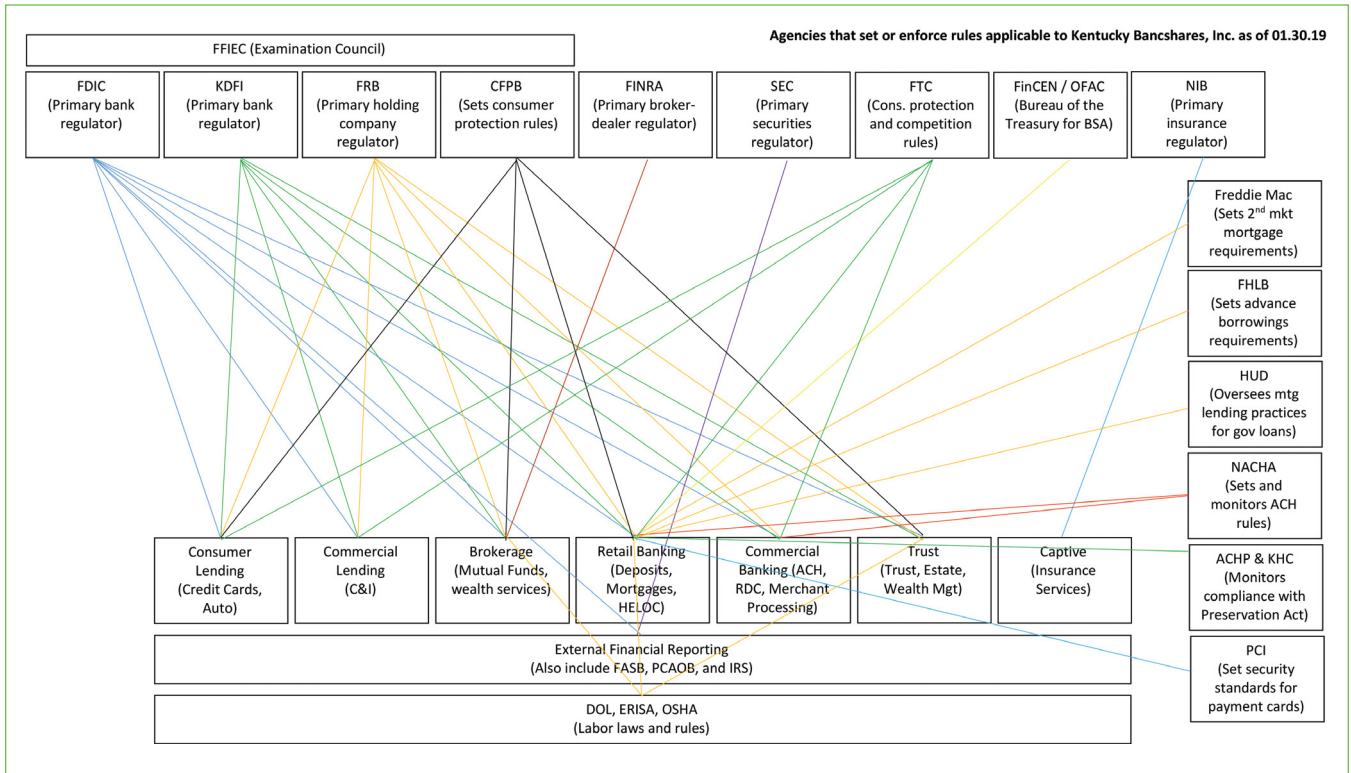


Figure 2. Kentucky Bank Provisions Chart. Jan. 2019

Provision	Bank (Y/N)	Balance Sheet (\$)	Net Income (\$)
Simplified Capital Rules	Yes, but...We currently have a leverage capital ratio of 9.2% and a total capital ratio of 14.7%. The leverage ratio takes into account the types of assets we have on our balance sheet. The lower the perceived risk of an asset, the lower capital we are required to maintain. Therefore, when the capital requirements were revised downward, we theoretically could book more or different types of loans without issuing new stock. However, in practice, we want to manage our underwriting standards to ensure we maintain favorable asset quality trends. Therefore we do not intend to dramatically lower our underwriting standards to book additional loans. However, in the long run the lowered capital requirements will allow us to continue to grow. As an example, using our year-end 2018 gross loan balance, if we were able to book an additional 10% or \$68.6 million in loans at an average APR of 5%, we would yield an additional \$1.5 million in net income after reducing for 1% provision expense, 2.25% funding and overhead costs, and 21% for taxes.	68,614,400	1,463,545
Small bank holding company threshold	Maybe – We currently do not have any intentions of utilizing the debt limits outlined in the small bank holding company debt threshold but may in the future. As an example, if we were able to borrow \$20 million to buy a \$100 million bank instead of issuing stock that would not dilute our current shareholders we could increase our net income approximately x — assuming borrowing costs of 6% and a return on equity of 12%.	100,000,000	1,200,000
Qualified Mortgage	Yes, but...The change now means that all loans we keep on our portfolio are considered a Qualified Mortgage (QM). This is important because QM loans are exempt from the Ability-to-Repay (ATR) requirement of Dodd Frank. This is important because it reduces the risk of forfeiting a lien position on a mortgage loan. However, we never offered “no doc” loans nor did we ever offer “negative amortization” loans. These two loan types were the primary reason for QM and ATR. Therefore, the change in regulation reduces some legal risk for us but does not change the products or services we offer to our customers. As an example, the exemption of the bright line test regarding the Debt to Income ratio does help us offer non-traditional borrowers such as self employed borrowers (i.e. contractors with rental houses) and individuals with uneven income sources (i.e. farmers) mortgages without increasing our legal risk (lien position). As an example, using our year-end 2018 gross loan balance, if we were able to book an additional 10% or \$68.6 million in loans at an average APR of 4%, we would yield an additional \$900 thousand in net income after reducing for .50% provision expense, 2.25% funding and overhead costs, and 21% for taxes.	68,614,400	937,753
HMDA	No – We are over the 500 mortgage threshold so we did not see any reduction of resources on the changes to HMDA. In 2018, the required number of reported fields went from approximately 30 to over 100. We had to upgrade our software, retrain our employees, and redesign our process.	–	– (30,000)
Exam cycle	Yes – We are now on an 18 month joint exam cycle by the FDIC and KDFI rather than a 12 month exam cycle. This means we receive two exams every three years rather than three. We allocate approximately 250-350 people hours per exam. So, on average the change in exam cycle saves us between 250-350 hours every three years or approximately \$20,000.	–	– 20,000

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The Impact of Economic Growth, Regulatory Relief, and Consumer Protection Act on FirstBank

Introduction

“We [FirstBank] exist for the customer”—this statement came straight from the mouth of FirstBank’s Chief Financial Officer, James Gordon, and exemplifies the heart of a community bank. Despite FirstBank’s commensurable growth, FirstBank remains committed to its customers. FirstBank defines its mission as, “Helping people build a better future.” FirstBank lives its mission by supporting community events and providing the capital needed to fuel its customers’ dreams. Chris Holmes, FirstBank’s President and Chief Executive Officer, explained that FirstBank measures its success on three important criteria: being a great place to work, delivering elite financial performance, and having a strong community commitment. FirstBank strives to be a bank where people are excited and proud to work. Since 2013, FirstBank has been named among “Middle Tennessee’s Top Workplaces” by *The Tennessean*, one of the principle daily newspapers in Tennessee. The pride in FirstBank is easily noticed when visiting a branch. John Blade, Market President in Fairview, Tennessee, believes the FirstBank

team is more like family and FirstBank’s talent management is the key to all the bank has accomplished.

As in any business, financial performance is necessary to succeed. FirstBank delivers elite financial performance as compared to its peers based on its performance across its markets—both community and metropolitan. As a publicly traded company, a portion of FirstBank’s vision is to “provide superior long-term returns for [its] shareholders” (“About Us”).

Importantly, FirstBank believes it is successful as a community bank because it empowers its market presidents to serve their respective communities. FirstBank’s markets are led by “local people with local knowledge and local authority” (Holmes). Market presidents are empowered to make decisions within their markets. For example, Troy Buttrey, a market president in rural Paris, Tennessee, John Blade, market president in a transitional market in Fairview, Tennessee, and Jeff Hudson, market president of the Memphis, Tennessee, market are all empowered to serve his individual market to deliver upon the mission and vision to the people, customers, communities, and shareholders.

FirstBank reveals its commitment to the communities it serves in many of its values and in its vision. As previously stated, FirstBank exists for the customer. Furthermore, FirstBank values, “treat[ing] people with respect, and do[ing] the right thing” (Holmes). These values all lead to FirstBank’s vision to “deliver trusted



FirstBank reveals its commitment to the communities it serves in many of its values and in its vision.

solutions to [its] customers,” as well as “invest in [its] communities” (“About Us”). By following the values and vision of FirstBank, employees know exactly how to serve their communities, succeed financially, and build deep and long-term relationships with their coworkers and community.

The FirstBank Story and Represented Markets

A. FirstBank’s Beginning and Growth

From FirstBank’s humble beginning to becoming a publicly traded company,

its community bank story is nothing short of unique. FirstBank’s story started with the company having a single, rural bank in Scotts Hill, Tennessee. In 1984, Jim Ayers and Steve White purchased Farmers State Bank, chartered in 1906, in Scotts Hill for \$1.5 million when the bank totaled \$14 million in assets and had only seven employees. After Ayers decided to purchase the assets of First National Bank of Lexington in Lexington, Tennessee, in 1986, the

Under Ayers' supervision, FirstBank went from being one of the smallest banks in the state to one of the largest community banks in Tennessee ("About Us").

entity adopted FirstBank as the new name for both banks. In 1990, Jim Ayers acquired sole control of the bank when FirstBank consisted of \$90 million in assets. As FirstBank continued to grow, it acquired several banks in the Lexington area, including Bank of West Tennessee and a branch of Nations Bank. During the early 2000s, FirstBank purchased two banks in Tennessee and seven other branches. In 2014, FirstBank increased its overall footprint by opening a branch in Huntsville, Alabama.

In September 2016, Ayers took the next step to further FirstBank's legacy by offering ownership in FirstBank to the public. Because of FirstBank's pride in its humble start, one of the original seven employees of FirstBank, Becky Davis, accompanied Ayers to the New York Stock Exchange for the Initial Public Offering and rang the bell. Davis has been part of the FirstBank family for 46 years. Although Ayers decided to allow additional investors

in FirstBank as well as granted ownership to all employees, he still remains the largest shareholder at 44%.

In an interview with Jim Ayers, Executive Chairman of the Board, he provided valued insight into FirstBank. Ayers revealed that much of FirstBank's growth is from small towns, and that these down-home markets are his pride and joy. Ayers has a philosophy that bankers should go into the community and ask for people's business in a personal way; this is something Ayers continues to do today. Under Ayers' supervision, FirstBank went from being one of the smallest banks in the state to one of the largest community banks in Tennessee ("About Us").

B. Represented Markets

When choosing markets to portray in this study, the management of FirstBank suggested the Tennessee markets of Paris, Memphis, and Fairview. The Paris, Tennessee, market is a rural representation of FirstBank. To thrive as a bank in this rural market, the bank's personnel have had to develop a trusted, personal relationship with the customers. The staff of the Paris market explained that FirstBank is active within the community and being customer-focused is imperative to the success of its market.

Troy Buttrey, Market President for Paris and Carroll County, Tennessee, is a rare exception to FirstBank's market strategy. Buttrey is one of the few FirstBank market presidents who is not originally from his market. He and his family currently reside in Paris and Buttrey continues to prove his value within the community and

market. Currently, the Paris market consists of approximately equal loans to deposits (Gordon). Buttrety continues to grow FirstBank's presence in the Paris, Tennessee, market through securing loans and deposits.


The Memphis, Tennessee, market is representative of FirstBank's metropolitan presence. Memphis is more concentrated with commercial real estate activity as compared to other FirstBank markets. Nonetheless, FirstBank is continually working towards growing its market presence within the community. FirstBank's Memphis Market President, Jeff Hudson, explained that a banker has to have the right mindset to lend money to commercial customers as well as guidelines to follow when considering providing capital for commercial endeavors.

A key concept for FirstBank is the need to know and understand the risk and opportunities within the market to make intelligent banking decisions. If a banker does not know his market, he does not know where to focus, who to hire, or who to do business with. This concept is an idea that Jim Ayers established and has supported since the very beginning.

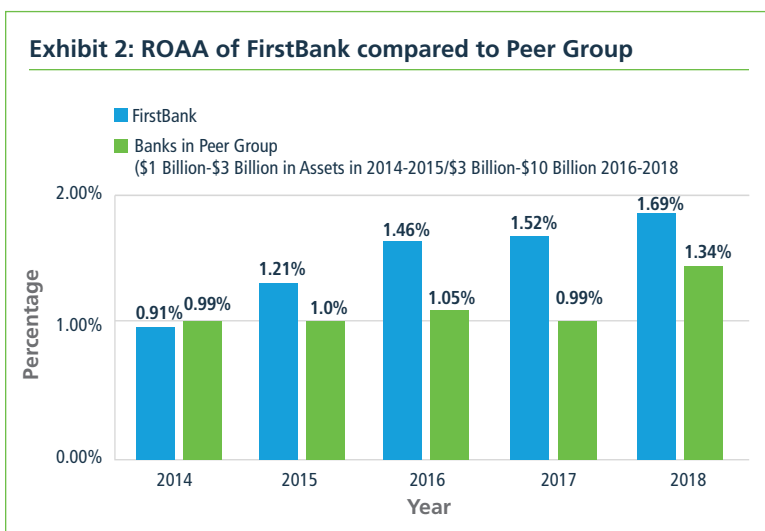
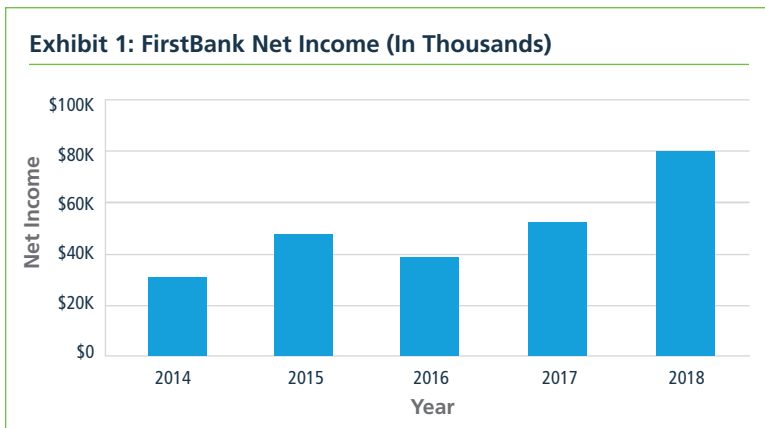
Fairview, Tennessee, is a growing community that has rural and metropolitan roots. While Fairview has a rural customer base, it is also growing in the metropolitan market share because of the westward expansion of Nashville, Tennessee. John Blade, Market President of Fairview, is a Fairview native and has believed in the mission of the bank since his employment with FirstBank began. Blade was also recently

elected to serve as Mayor of Fairview in November 2018. FirstBank currently has the majority of the market share in Fairview, holding approximately 64% of the deposits in the community ("Each Depositor Insured"). Blade continues to be the model community banker within his market (Holmes). FirstBank in Fairview prides itself on getting 70% of deposits new to the market as the Nashville community expands west (Blade).

FirstBank empowers its market presidents to make specific decisions impacting their customers and market. These decisions include certain lending, human resource, and community involvement tactics. To maintain its unique community bank model, FirstBank attempts to hire market presidents who are native to the area; thus, allowing customers to feel comfortable talking directly to the market president.



A key concept for FirstBank is the need to know and understand the risk and opportunities within the market to make intelligent banking decisions.



FirstBank has determined a set of six values that are important to the company, including: “One Team. One Bank.”, do the right thing, commitment to excellence, treat people with respect, enjoy life, and exist for the customers (Holmes). Through its customer focus and local strategy, FirstBank perfectly represents a community bank. Patrons trust FirstBank and the smiles from employees whether from the teller at the drive-through window, the loan officer who is providing funding for a new home, or the market president at a local sporting event.

Financial Analysis

A. Earnings Performance

FirstBank has experienced steady earnings growth over the last few years. The bank had net income of \$82.1 million in 2018, ranking as its highest net income in the last five

years (see Exhibit 1). From 2017 to 2018, the bank experienced net income growth of 37.75%. This growth is primarily due to recent acquisitions, organic growth within the bank, and tax reform.

FirstBank also has an exceptional Return on Average Assets (ROAA) compared to its current peer group of banks with \$3 billion to \$10 billion in assets (“UBPR Peer Group”). Although FirstBank has increased assets by 111.54% in the last five years, the ROAA through year-end 2018 was 1.69%, as Exhibit 2 presents. FirstBank’s ROAA surpasses the industry average by 35 basis points (“UBPR Peer Group”).

C. FirstBank’s Community Banking Model

When asked to define a community bank, Chris Holmes, FirstBank’s CEO, explained that the size of the bank does not matter; how a bank’s staff treats people is the attribute that defines a community bank. The quality of customer service the bank provides is the basis for its community impact. As FirstBank continues to grow, it plans to remain true to its community bank model by continually evaluating and monitoring changes in customer needs and desires.

FirstBank’s mission is defined as, “Helping people build a better future” (Holmes).

FirstBank has also achieved a higher Return on Average Equity (ROAE) compared to industry peers. ROAE increased from 11.3% in 2017 to 13.0% for year-end 2018. The average ROAE for FirstBank’s peer group for year-end 2018 was 11.73% (see Exhibit 3) (“UBPR Peer Group”).

FirstBank’s net interest margin has increased modestly over the last five years and ranks above peer averages (see Exhibit 4). Over the past five years, FirstBank’s net interest margin has increased from 3.93% in 2014 to 4.66% in 2018. The peer average net interest margin was 3.66% for 2018 (“UBPR Peer Group”). The main driver for this increase is largely FirstBank’s “continued customer-focused balance sheet growth” (“Corporate Profile”). This customer-focused balance sheet is accomplished through the numerous local loans and the large holding of core deposits, as opposed to brokered deposits. At year-end 2018, FirstBank’s core deposits were 97.5% of total deposits (“Corporate Profile”). The peer group’s core deposits to total deposits is 94.8% (“UBPR Peer Group”). This strategy proves that FirstBank strives to keep its banks local and seeks to solve liquidity issues by retaining its communities’ customers as the company’s main depositors.

B. Loan Portfolio Composition

Although Commercial and Industrial (C&I) loans, including

owner occupied commercial real estate, have remained 38% of the loan portfolio over the past six years, other major shifts in the portfolio’s composition have occurred (see Exhibit 5). For example, “1-4 family” and HELOC loans have decreased from 32% to 20% of the total loans. Meanwhile, FirstBank’s Commercial Real Estate (CRE) and Construction & Development loans increased from only 22% to comprising 34% of the portfolio’s total loans. Although CRE loans are considered riskier, this increased risk warrants an increased expected return. This

Exhibit 3: ROAE of FirstBank compared to Peer Group

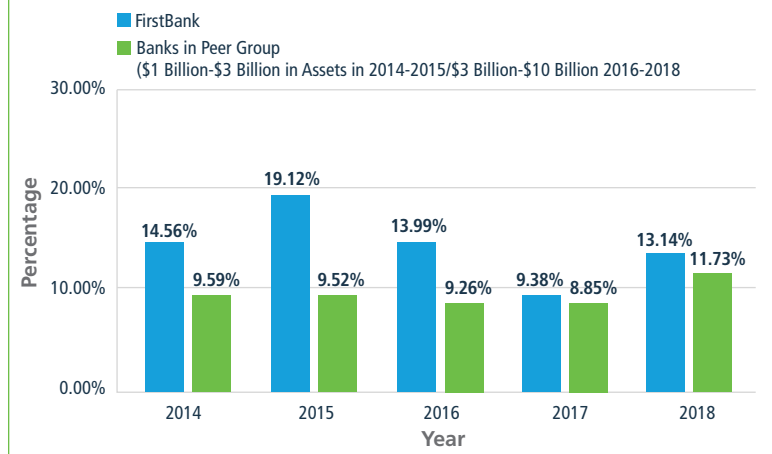


Exhibit 4: Net Interest Margin of FirstBank compared to Peer Group

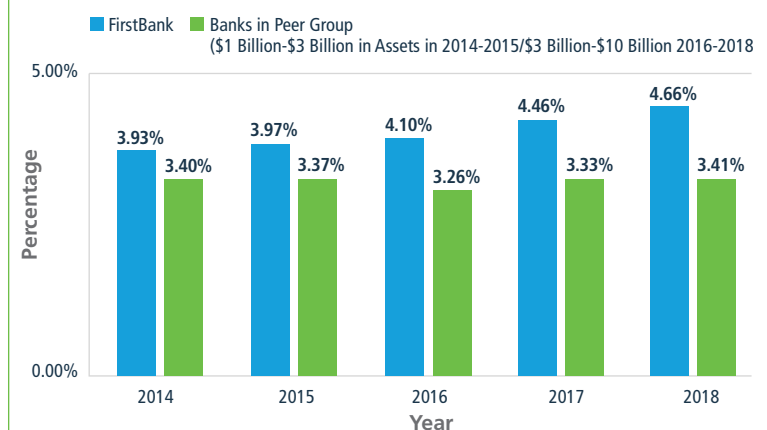


Exhibit 5: Loan Portfolio Composition

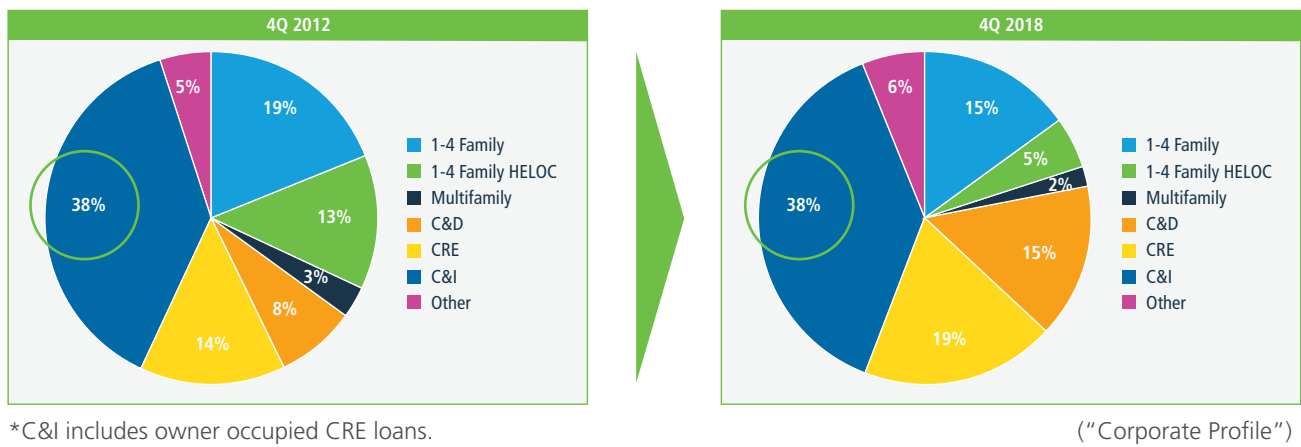
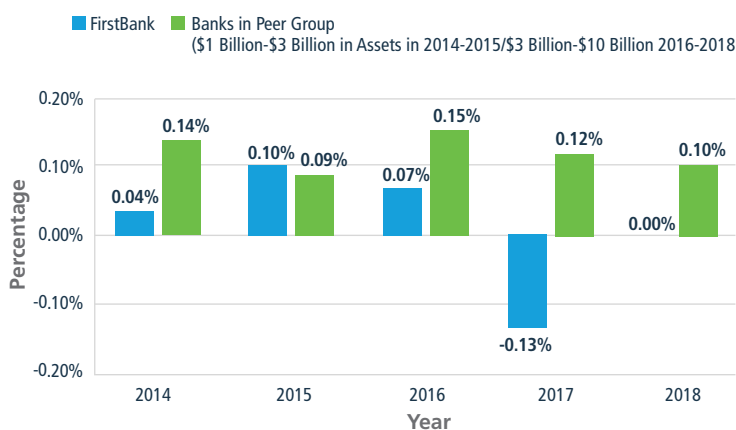


Exhibit 6: Net Charge-offs (Recoveries) / Average Loans



change in loan portfolio structure has made FirstBank more profitable than many of its peers. The profitability measures mentioned previously demonstrate this return. FirstBank’s concentration in C&I loans is expected to continue because of the growth within larger cities in FirstBank’s footprint, such as Nashville, Chattanooga, Knoxville, and Memphis.

C. Asset Quality and Growth

Asset quality has improved over the past five years because of the successful community

banking model and well-tailored risk management approach that FirstBank strives to uphold. FirstBank’s model is centered on knowing the customer. By knowing the customer, FirstBank can rely on more than numbers and calculations to determine a customer’s credit worthiness. As shown in Exhibit 6, FirstBank’s strategy, with assistance from a healthy economy, has improved the quality of loans by decreasing net charge-offs over recent years. In fact, FirstBank experienced net recoveries rather than charge-offs in 2017 and 0.00% net charge-offs to average loans for year-end 2018.

As previously emphasized, FirstBank has grown both organically and through acquisitions. FirstBank’s largest acquisition was Clayton Bank and Trust and its sister bank American City Bank in 2017 which increased assets by \$1.2 billion. Another important acquisition is the pending purchase of 14 branches of Atlantic Capital Bank announced in late 2018, which will

increase loans by \$381 million and deposits by \$602 million (Flessner).

Although acquisitions contributed to FirstBank reaching \$5.1 billion in assets as of year-end 2018, FirstBank has also generated ample organic growth as demonstrated within the three markets featured in this report. The Memphis, Paris, and Fairview market have had loan growth of 249.9%, 30.88%, and 90.27% respectively.

Most of the rural communities to which FirstBank provides its services hold more deposits than loans. These valuable deposits are, first, used to fund local growth and then to assist FirstBank’s high growth areas such as Memphis and Nashville as well as increase overall liquidity for the bank. For example, Fairview’s loans to deposits ratio is 45.6% as of year-end 2018 while Memphis’s and Paris’s ratios are 189.4% and 113.2%, respectively. Across the entire bank for markets classified as “metropolitan” and “community,” loans to deposits were 105.7% and 54.3%, respectively (Gordon).

D. Capital Levels

FirstBank strives to have adequate capital levels in accordance with the BASEL III requirements that became effective in 2013. The requirements to be a “well-capitalized institution” under BASEL III include the following criteria:

- I. Common Equity Tier I / Risk-weighted Assets: $\geq 10\%$

2. Tier I capital / Risk-weighted assets: $\geq 8\%$
3. Total capital / Risk-weighted assets: $\geq 6.5\%$
4. Tier I capital / Average assets: $\geq 5\%$

According to Exhibit 7, FirstBank is currently significantly above the minimum capital requirements of BASEL III to be classified as a well-capitalized institution.

E. Liquidity

Customer deposits are heavily sought to fund FirstBank’s continued growth. FirstBank has several strategies to obtain deposits, including: superior customer service and involvement in the community. This interaction familiarizes potential customers with the FirstBank brand and staff, thus encouraging them to bank with FirstBank.

The internal growth of the bank is prevalent through deposits growth in each of the three markets mentioned earlier. In the past five years, deposits have grown 24.3%, 66.4%, and 241% for Paris, Fairview, and Memphis, respectively. The large increase in deposits can be attributed to the growing metropolitan

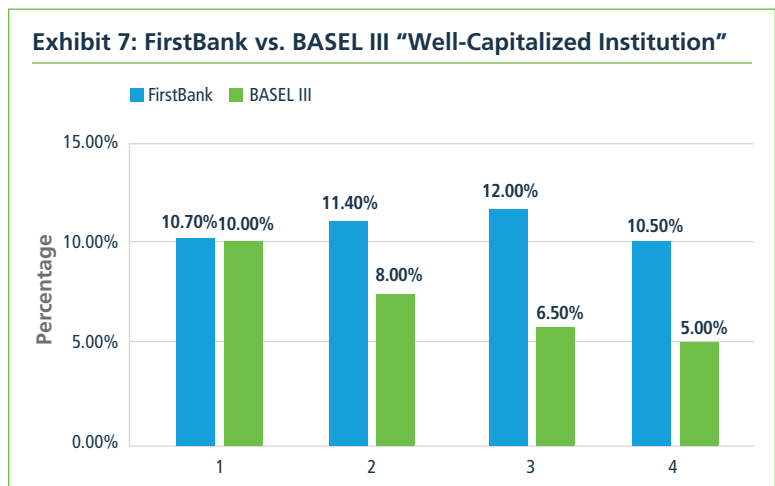
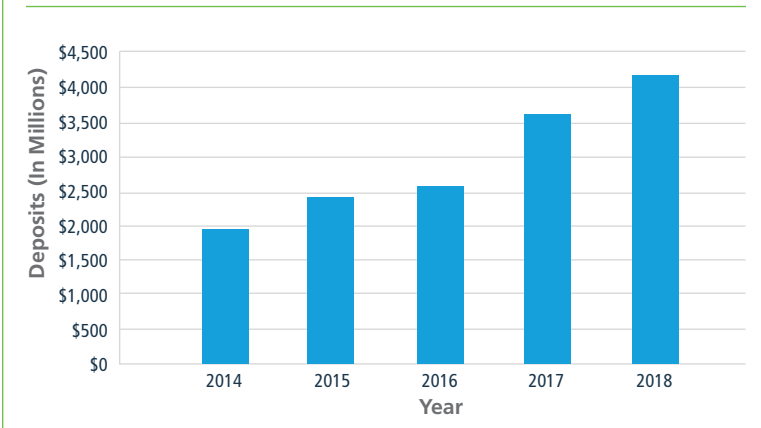


Exhibit 8: FirstBank Total Deposits (In Millions)



economies as well as FirstBank’s ability to capture a 58.3% increase in FirstBank’s deposit market share across Tennessee over the past 5 years (“Each Depositor Insured”).

The recently announced acquisition of 14 branches of Atlantic Capital Bank will increase FirstBank’s liquidity by adding \$381 million in loans and deposits of \$602 million to FirstBank. The Atlantic Capital Bank acquisition will contribute to FirstBank’s growth and add locations that complement FirstBank’s footprint in the East Tennessee and the North Georgia area. In the past five years, FirstBank’s total deposits have grown an average of 13.7% year-over-year (Exhibit 8).

FirstBank, like most banks, is currently working to increase its liquidity through the use of certificate of deposits promotions, acquisitions, and other deposit campaigns. FirstBank takes pride in being one of the leading banks in the region and plans to continue to grow to new heights, all while remaining profitable and true to its community bank roots.

Regulatory Compliance and Burden Assessment

A. Regulations Burdensome to FirstBank

In an interview with Tim Johnson, FirstBank’s Chief Risk Officer, he stated, “Regulation is the swinging of a pendulum.” In essence, regulations tighten during times of stress and ease in times of recovery. All the while, regulations are in place to provide adequate safety for customers.

The cost of compliance is burdensome as well as extremely difficult and costly to allocate. FirstBank does not specifically quantify the cost of compliance because “allocating the full expense [of compliance] is an accounting exercise no institution can really afford” (Johnson). Instead, FirstBank’s Risk Department relies on the industry-quoted norms for a bank of its size and operations to estimate total cost and full-time equivalents devoted to compliance (Johnson).


In 1970, Congress passed the Bank Secrecy Act (BSA) to combat money laundering. The BSA requires banks to maintain an extensive record and file of documentation used by law enforcement to “identify, detect and deter money laundering” (“Bank Secrecy Act”). FirstBank estimates the total cost to comply with the requirements of the BSA to be approximately \$3.5 million annually (Durham).

The Home Mortgage Disclosure Act (HMDA) passed in 1975, requires banks and other

financial institutions to “publicly disclose loan-level information about mortgages” (“About HMDA”). This maintenance and reporting of mortgage data force community banks to contribute countless hours and large amounts of capital to HMDA compliance. For FirstBank, the cost of complying with mortgage-lending regulations, including HMDA, totals approximately \$5.7 million per year, which is approximately 36% of the bank’s total compliance costs (Durham). This total continues to increase due to additional regulatory requirements.

Backlash from the 2007—2008 financial crisis caused a hefty number of regulations to be imposed on all banks, regardless of their size and capital. In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Act (Dodd-Frank Act) which imposed capital, liquidity, and testing requirements as well as lending and investing restrictions on the banking industry (Ruth). The Dodd-Frank Act, though filled with good intentions, is complex, costly, and provided little guidance on how to comply (Buttrey). FirstBank experienced an increased burden from the Dodd-Frank Act’s financial reporting requirements in a number of areas although its assets total less than \$10 billion. To satisfy all reporting requirements, FirstBank spends approximately \$2 million per year, or 13% of its total compliance costs (Durham).

The TILA-RESPA Integrated Disclosure Rule (TRID), which combined various “disclosures that consumers receive in connection with applying for and closing on a mortgage loan



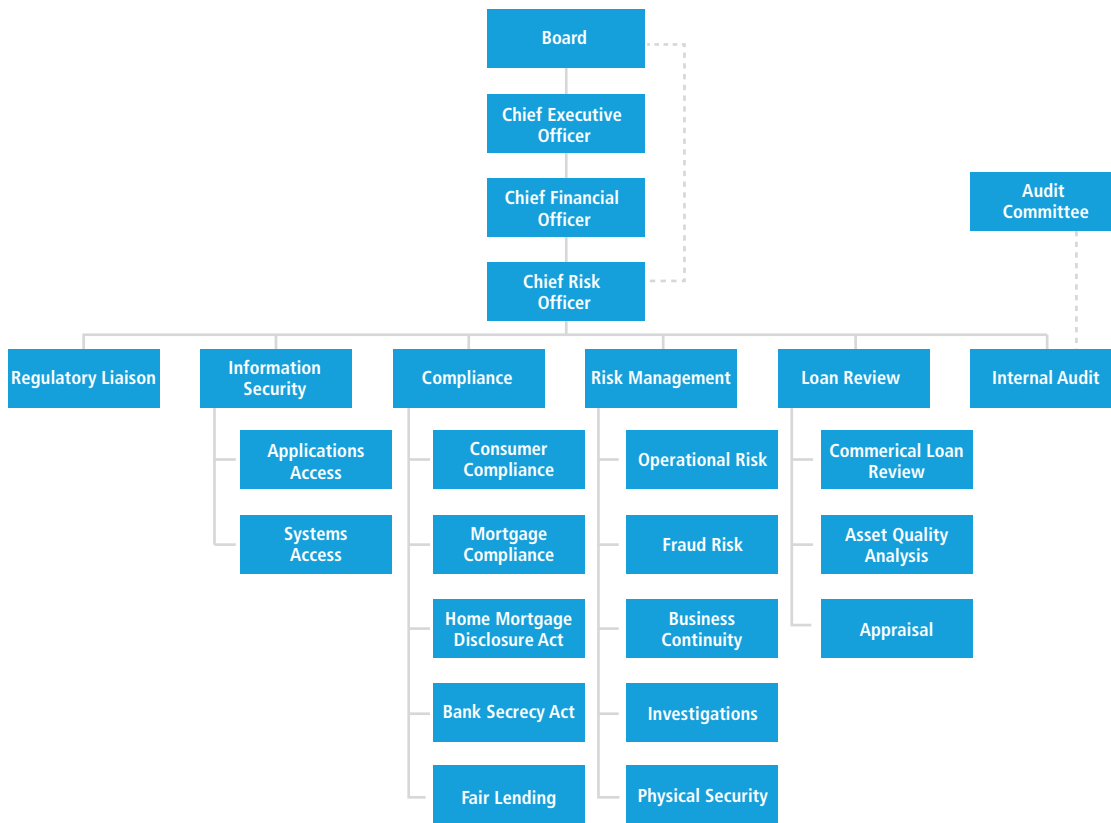
*Community banks
are at a disadvantage
in terms of compliance
requirements.*

under the Truth in Lending Act and the Real Estate Settlement Procedures Act” into one rule, is a specific regulation within the Dodd-Frank Act that is burdensome to FirstBank (“Integrated Mortgage Disclosure”). Similar to HMDA, TRID requires ample paperwork and labor hours. During an interview in Paris, Troy Buttrey explained that the mortgage lending process went from approximately a week to almost 40 days to close after the implementation of TRID (Buttrey).

B. FirstBank’s Dedication to Compliance

Community banks are at a disadvantage in terms of compliance requirements. The costs of compliance affect community banks more on a relative basis because they have limited staff and/or excess funding to contribute into regulation compliance. A Federal Reserve study estimates that compliance cost represents 9% of the workforce in a community bank that has assets between \$1 billion and \$10 billion (Fuchs). Despite the cost of regulatory compliance, CEO Chris Holmes states, “Compliance is not optional; it is a cost of doing business.”

Exhibit 9: Loan Portfolio Composition



FirstBank has a highly dedicated team focused on the compliance and security of FirstBank’s operations. The Board of Directors and three chief officers, CEO Chris Holmes, CFO James Gordon and CRO Tim Johnson, oversee six divisions within the Risk Department. Approximately 100 full-time equivalents within FirstBank are dedicated to compliance (Durham). Compliance and regulation, however, affects the day-to-day business of almost every employee at FirstBank. The sheer magnitude of the Risk Department, presented in Exhibit 9, demonstrates the costliness of compliance.

Employees in the Regulatory, Information Security, Compliance, Risk Management, Loan Review, and Internal Audit function report to the CRO, Tim Johnson. Risk information from these functions flows to the Board of Directors. Laurie Durham, Regulatory Liaison, is responsible for understanding and implementing the regulations that affect FirstBank. Durham performs a key function within the Risk Department, as her knowledge and guidance benefits all branches and other subdivisions in the Risk Department. The Information Security division is responsible for ensuring that there is only authorized use of information and that all systems are protected

throughout the bank. The Compliance Department, an especially critical department given FirstBank's large mortgage operation, is responsible for insuring compliance with regulations around BSA and compliance with consumer protection and fair lending laws. This function is a highly expensive necessity.


The Risk Management Department focuses on physical security of all locations, internal investigations, and operational risk. The task of the Loan Review division is to ensure the safety and soundness of the loan portfolio and compliance with the loan policy and controls. The final department, Internal Audit, oversees the internal audit and internal control processes within FirstBank and assists the Audit Committee. FirstBank reduced the outsourcing of its internal auditing and increased its staff over the past three years. To accommodate this shift to in-house internal auditing, FirstBank has hired at least one auditor in most years from 2016 to 2019 (Durham).

Based on industry average, FirstBank estimates that the total annual compliance cost ranges from approximately \$14 million to \$17 million (Durham). This calculation is based on the CSBS estimate of "5.3% of non-interest expenses for a \$1 billion to \$10 billion bank," as well as an added consideration for FirstBank's large mortgage and manufactured housing divisions (Durham). Johnson explains the allocation of compliance costs throughout FirstBank as follows, "The cost [of compliance] is dispersed among all job functions within the organization. Virtually, every employee spends some time during a year on compliance." As noted

previously, compliance and regulations are burdensome to FirstBank and all community banks across the United States given the high cost and the large number of employees dedicated to and involved in compliance.

Review of Relevant EGRRCPA Provisions and Impact on FirstBank

Since FirstBank is a larger community bank with over \$5 billion in total assets, it is excluded from capitalizing on a number of EGRRCPA provisions. However, the regulatory provisions that FirstBank has the opportunity to utilize could have significant effects on FirstBank's operations. Because of FirstBank's mortgage-heavy loan origination, the most significant provisions from the EGRRCPA are the simplified capital rules and mortgage servicing capital regulations. The Volcker Rule exclusion will also allow FirstBank the opportunity to invest into local community investment funds and financial technology (FinTech) companies.



FirstBank reduced the outsourcing of its internal auditing and increased its staff over the past three years.

Exhibit 10: EGRRCPA Provisions and Impact on FirstBank

Provision	Benefit Bank	\$ Impact expected by year end 2019	
		Balance Sheet	Net Income
Simplified Capital Rule	Yes	\$830 million*	\$27 million*
Small Bank Holding Company Threshold	No	N/A	N/A
Highly Volatile CRE	No	Limited	Limited
Qualified Mortgage	No	Limited	Limited
Escrow Requirements	No	Limited	Limited
HMDA	No	Limited	Limited
Waiting Period on Credit Offers	No	Limited	Limited
Exam Cycle	No	N/A	N/A
Volcker Rule	Yes	\$10 million	\$1 million
Short Form Call Report	No	N/A	N/A
Appraisals	Yes	\$85 million	\$1.3 million
Reciprocal Deposits	Yes	Limited	\$700 thousand

* An increase in balance sheet impact by \$480 million (57.8%) and net income by \$16 million (59.2%) would occur if the proposed 8% CBLR is adopted.

Additionally, changes to the reciprocal deposit classification will prove beneficial amid FirstBank's increasing use of these deposits. Although FirstBank has investigated possible benefits from all regulatory provision, its various markets could benefit from other aspects of EGRRCPA after additional input and clarification from bank regulators. Exhibit 10 shows the relevant provisions that FirstBank is considering.

A. Simplified Capital Rule

In an interview with Colin Barrett, President and CEO of Tennessee Banker's Association (TBA), he stated a continued need exists for relief in capital requirement reporting. Capital requirement reporting is another burden that affects FirstBank's impact on its communities

by deferring a large number of resources to compliance with these requirements (see Exhibit 10). The simplified capital rules provide the best opportunity for regulatory relief within FirstBank. Laurie Durham, Regulatory Liaison of FirstBank, stated that FirstBank's community bank leverage ratio (CBLR) was 10.7% as of September 30, 2018, and is expected to be above the 9% benchmark as of June 30, 2019, using proforma financials (Durham). These ratios would qualify FirstBank for the BASEL III exemption and limit the regulatory compliance burden within FirstBank. This exemption would allow FirstBank to hold up to 25%, previously limited to 10% under BASEL III, of its Mortgage Servicing Rights (MSR) as Tier I Capital without deduction from its regulatory capital (Gordon).

This is beneficial as FirstBank's balance sheet contains a large amount of MSRs, approximating \$89 million at year-end 2018 (Gordon). The benefits from the simplification of these capital rules, specifically the treatment of MSRs, could prove favorable for FirstBank's stock price and investor outlook. FirstBank approximates an \$830 million impact on its balance sheet and a \$27 million increase in net income by year-end 2019, assuming the full deployment of the excess capital created with the new CBLR into loans to customers (Durham).

In April of 2019, it was announced that the Senate Banking Committee proposed setting the CBLR to 8% (ABA). This would significantly change FirstBank's estimates, shown in Exhibit 10, related to the impact of the simplified capital rule by adding an additional \$480 million to the balance sheet and an additional \$16 million to net income (Durham.)

B. Reclassification of Reciprocal Deposits


Another provision proving to be beneficial to FirstBank is the reciprocal deposit reclassification. Historically, reciprocal deposits were considered brokered deposits by banking regulators. Brokered deposits are not generally attractive to FirstBank or the banking industry because of the effect on a bank's regulatory risk profile. Although FirstBank has not previously utilized these deposits significantly, it began increasing its use of these deposits in the last half of 2018. FirstBank was willing and able to capitalize on the benefits of reciprocal deposits shortly after the passage of EGRRCPA and will continue to integrate their use to diversify

funding and provide additional protection to customers (Gordon).

Reciprocal deposits will replace the true brokered certificate of deposits and Federal Home Loan Bank advances, resulting in an decrease of 85 basis points due to lower cost funding (Durham). FirstBank estimates receiving a \$700 thousand increase in net income by year-end 2019 from the implementation and use of reciprocal deposits (see Exhibit 10).

C. Volcker Rule Provision

EGRRCPA relief regulations will allow smaller banks, like FirstBank, to remain competitive in an era of increased customers' confidence and comfort in conducting banking business online. The exemption from the Volcker Rule allows FirstBank to capitalize on potential investment opportunities in FinTech companies and related investment funds. FinTech companies are online lenders and other tech providers that may lack FDIC-insured deposits and rely on



Another provision proving to be beneficial to FirstBank is the reciprocal deposit reclassification.

chartered bank investment to safely function with FDIC insurance (Gordon).

According to James Gordon, CFO of FirstBank, two years prior to the passage of the EGRRCPA, FirstBank was approached by a FinTech fund that was searching for banks willing to invest and use its technology as a “sounding block” for the finalizing and refining of its product. At that time, the Volcker Rule prevented any investment in the FinTech fund, as it is classified as a private equity endeavor. With the new Volcker rule exemption, FirstBank would be allowed to invest in these private equity FinTech funds, use the newest and most up-to-date technology, and compete with larger financial institutions that are currently able to invest in such technologies directly.


When asked if EGRRCPA’s Volcker Rule provision could help FirstBank serve new customers within its markets, Gordon stated that community investment will always benefit

a community bank. Gordon continued to explain that the Volcker rule exemption would allow FirstBank the opportunity to invest in community projects funded by various investment vehicles. Investment funds which are created to provide capital to emerging growth, such as small business or housing, are generally barred from investment by banks under the existing Volcker Rule. The exemption allows FirstBank to remain the relevant and competitive community advocate that it strives to be. Exhibit 10 illustrates the economic impact of this exemption.

D. Other Considerations

As with most government acts and regulations, a lag between the congressional passage and the actual implementation of the EGRRCPA exists. Several unapparent provisions of EGRRCPA could prove beneficial for FirstBank in the coming quarters after reviews and interpretations become final. The increase in the threshold for appraisal requirements in rural areas from \$250,000 to \$400,000 may prove beneficial. Due to the rural setting of many of FirstBank’s markets, areas that tend to lack relevant appraisals, this revised \$400,000 benchmark would decrease the number of required appraisals for many loans in these communities. The appraisal requirement changes are expected to have an \$85 million impact on the balance sheet as well as a \$1.3 million increase in net income by year-end 2019 (Durham).

Regulatory relief for community banking is a rare and always appreciated occurrence in the banking industry. Relief that directly benefits



The exemption allows FirstBank to remain the relevant and competitive community advocate that it strives to be.

the community bank from daunting and overbearing regulation is important to banks, such as FirstBank. Tennessee Department of Financial Institution's Commissioner Greg Gonzales believes legislation and regulation within the banking industry is most beneficial when it is tailored to each institutions' services and capacity, so that there is a balance between the regulation's benefit and its economic burden. This balance is incorporated in the EGRRCPA and empowers the examiners and bankers to conduct business that provides safety to the market as well as better serve the community in which they operate.

Looking Forward

A. Additional Regulatory Relief Needed

Although the legislative branch, through the passage of the EGRRCPA, is now "swinging the pendulum" back to a more level playing field, more relief needs to be found, so that the smaller community banks cannot only compete with the larger national banks, but also devote more of their time and efforts to their customers. Many aspects within the EGRRCPA were directed towards banks with less than \$3 billion in assets, thus excluding FirstBank. Tim Johnson, CRO, believes relief is needed from many aspects of the Dodd-Frank Act and more relief should be tailored to the community banks holding \$3 billion to \$10 billion in assets.

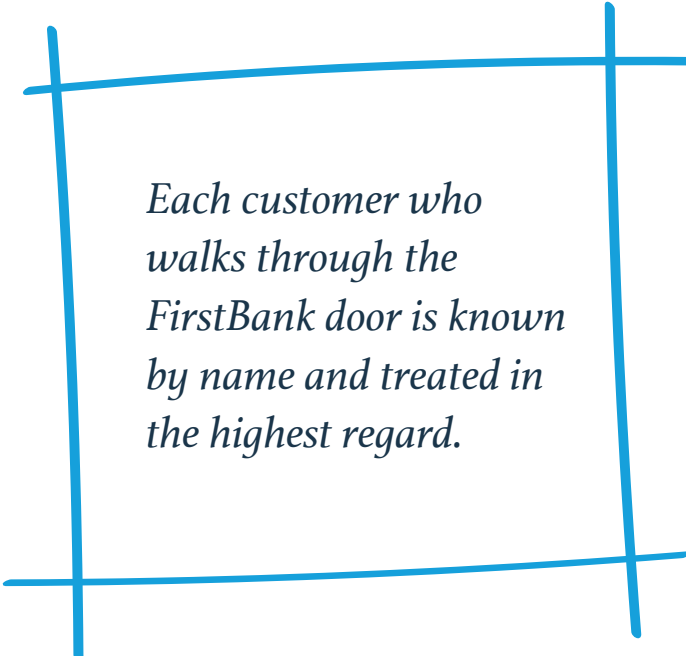
Some of the more burdensome regulations that have not been addressed for banks with \$3 billion to \$10 billion in assets by the EGRRCPA include the Bank Secrecy Act, Home Mortgage Disclosure Act, and deposit



Regulatory relief for community banking is a rare and always appreciated occurrence in the banking industry.

compliance regulations. As previously stated, both the BSA and the HMDA require extensive documentation, monitoring, and reporting. BSA and HMDA total an estimated \$9.2 million per year in compliance costs for FirstBank (Durham). If even slight relief was given to banks in BSA and HMDA compliance, FirstBank would be able to focus that percentage of capital no longer needed to comply with BSA and HMDA toward the community.

FirstBank allocates approximately \$2 million per year in deposit compliance based on industry average (Durham). Community banks like FirstBank want to focus their efforts on building relationships with the community instead of spending their time adhering to onerous regulations. A portion of the \$2 million devoted to regulatory compliance could be reinvested in the community and used to build the customer relationships FirstBank desires.



Each customer who walks through the FirstBank door is known by name and treated in the highest regard.

B. Community Banks vs. Credit Unions and Farm Credit Services

Tim Johnson and Laurie Durham believe there is a disadvantage for community banks in competition with local credit unions and Farm Credit Services. Credit unions and Farm Credit Services have tax advantages and fewer regulatory obligations, thus, making it difficult for community banks to offer the same rates. Johnson believes if credit unions and Farm Credit Services incurred the same compliance expenses as community banks or community banks were given more relief from those expenses, FirstBank could offer more competitive rates to customers.

C. FirstBank's Present Market Competition and Going Forward

FirstBank does not let the cost of compliance defeat its competitiveness within its markets and strives to be among the top banks in terms

of market share (Holmes). FirstBank in Fairview holds 64% of the deposit market share (Blade). In Paris, FirstBank is ranked third highest in deposits in its market and FirstBank in Memphis has more than doubled its market share in the last five years ("Each Depositor Insured"). FirstBank competes for customers by providing exceptional service and value. Buttrey stated, "At FirstBank, [the customer] is somebody, not just a number." Each customer who walks through the FirstBank door is known by name and treated in the highest regard.

Each FirstBank market faces location-specific challenges. In the Fairview market, the challenge is continuing to grow beyond the 64% market share (Blade). The Paris market faces competition from rate battles and also from the smaller banks with fewer regulatory requirements (Buttrey). To compete with single-branch banks, Buttrey strives to provide the most valuable service because FirstBank does not consistently have the lowest loan rates in Paris. FirstBank in Memphis is challenged with the sheer size of the market, but sees great opportunity to grow. FirstBank is highly concentrated in commercial business in Memphis because it currently does not have enough branches to compete with the national bank presence in the metropolitan area (Hudson). FirstBank's shortage of branches in Memphis hinders its impact within the market, but provides avenues for expansion. As evidenced previously, FirstBank is faced with constraints from not only regulation, but also competition from banks of all sizes within the relative markets. Regulatory relief will allow

for FirstBank to contribute its time and capital into the communities it serves instead of into compliance requirements.

Conclusion

The FirstBank story began in Scotts Hill, Tennessee in 1906 as Farmer's State Bank and has grown into the third-largest Tennessee-headquartered bank. With 66 full-service bank branches located throughout Tennessee, north Alabama and north Georgia, and a national mortgage operation with offices across the Southeast, FirstBank has the opportunity to impact millions of lives within the communities it serves ("About Us"). Service to its customers is certainly a value on which FirstBank prides itself. The market presidents, from rural to metropolitan markets, can impact their communities from the ground level because these presidents are empowered and supported by FirstBank to serve and better their communities all while FirstBank exceeds its peers in earnings, loan growth, asset quality, capital levels, and liquidity.

FirstBank plans to capitalize on the applicable components of EGRRCPA, thus allowing for a greater capital and time allowance to devote to the communities. For banks within the \$3 billion to \$10 billion asset category, there is continued relief needed from many aspects of BSA, HMDA, and deposit compliance regulations. FirstBank hopes that future regulatory relief will also be focused on leveling the playing field with credit unions and Farm Credit Services. More relief will give FirstBank the opportunity to continue expanding its

operations as well as better serve its customers. FirstBank has not let any amount of competition or regulatory burden stop it from growing and succeeding, all while keeping its customers and communities at the forefront of its mission. FirstBank is an exceptional community bank that works diligently to help individuals, families, businesses, and entire communities build a better future.



FirstBank has not let any amount of competition or regulatory burden stop it from growing and succeeding.

3RD PLACE

Utah Valley University

Students:

Carson Gilbert

Cameron Roper

Mark Brown

Nate Terry

Faculty Advisor:

Mark Howell

People's Intermountain Bank: Impact of EGRRCPA Provisions

Introduction

People's Intermountain Bank has been a growing financial beacon for businesses and individuals alike in the State of Utah. Building stronger communities by creating meaningful relationships has been at the heart of People's Intermountain Bank since its founding in 1913 and is currently one of its core principles.

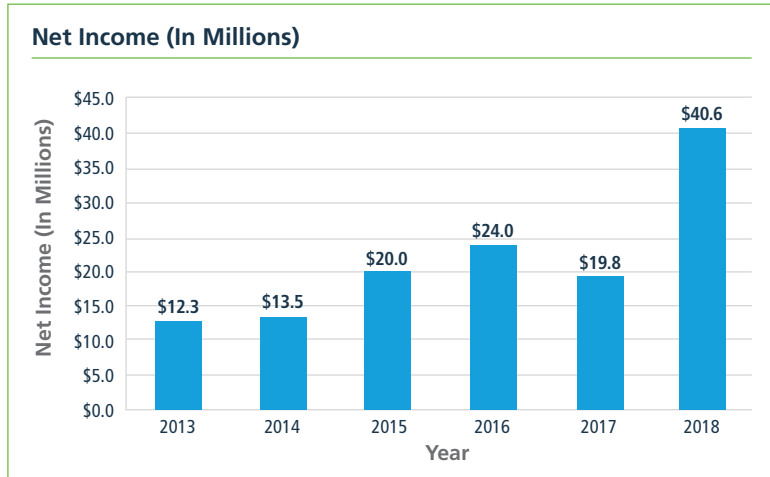
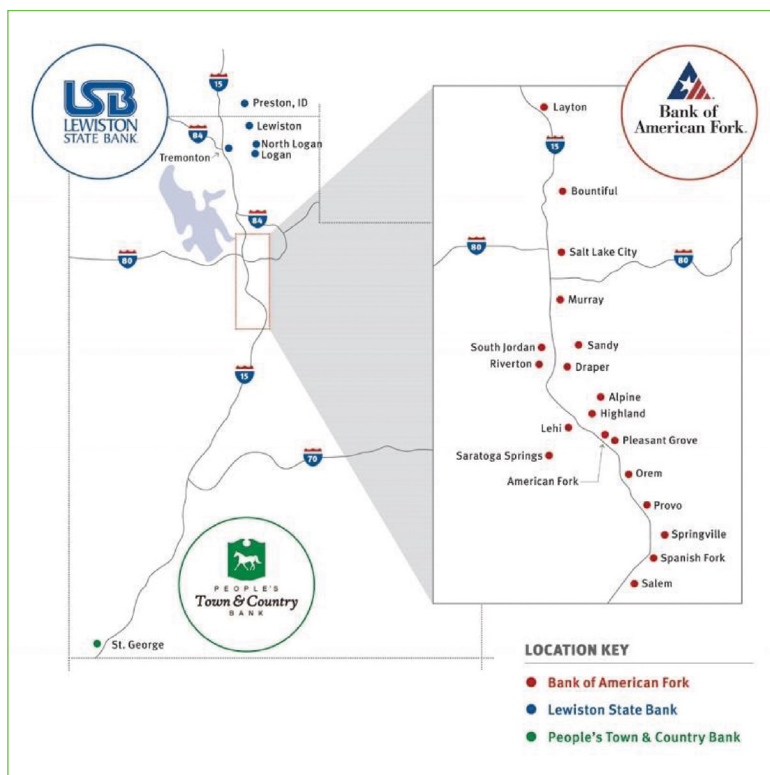
Since the passage of Dodd-Frank in 2010, tighter federal regulations have been an obstacle that community banks have faced as they strive to serve their communities. In May of 2018, S.2155 - Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) was passed with intent of regulatory relief for federally regulated financial institutions. This study aims to analyze the effects of this new legislation as it pertains to People's Intermountain Bank.

Part I: Financial Analysis

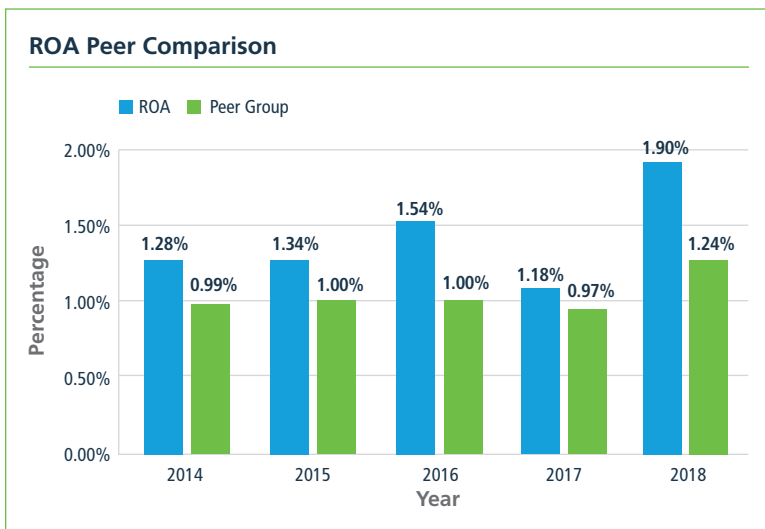
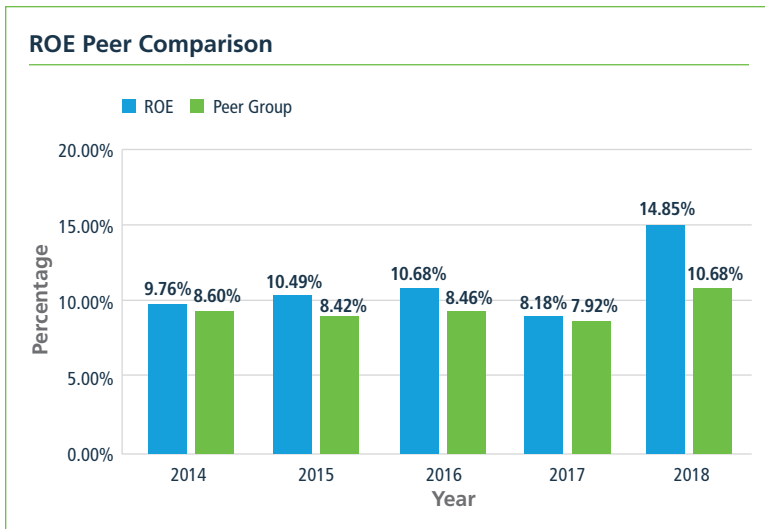
A. Earnings Performance

The last decade, and particularly the last few years, the State of Utah has been characterized by strong growth, development, and economic prosperity (Lee). People’s Intermountain Bank has taken advantage of this trend and has been able to further capitalize on the economic strength of its communities through experienced strategy and excellent capital management. This in turn has consistently produced impressive earnings.

2018 was a record-breaking year for this century-old bank. Net income increased from \$19.8 million in 2017 to \$40.6 million in 2018, an increase of nearly 105% (Federal Financial Institutions Examination Council [FFIEC]). This increase was largely due to two factors: a merger and an acquisition at the end of 2017 coupled with financial relief from the tax reform act signed on December 22, 2017. In 2015, People’s Utah Bancorp, the holding company for People’s Intermountain Bank of which Bank of American Fork is a division, had an IPO that raised nearly \$40 million. This increase in capital allowed for one merger and an acquisition of seven branches. The merger of Town and Country Bank in southern Utah, the nation’s third fastest growing economy, was completed



in November of 2017 (Perlich). In October of 2017, just prior to the closing of the merger, People’s Intermountain Bank announced the acquisition of seven Utah branches of Banner Bank. These aggressive moves by People’s Intermountain Bank were strategic as they



added both profitable assets to the bank’s portfolio and key locations along the highly trafficked interstate, I-15 (Deseret News).

Though often overlooked, as it relates to financial statements of the fiscal year 2018, the tax reform was a huge financial advantage and relief for all C-Corporations. The “Tax Cuts and Jobs Act” was signed by President Trump in December of 2017. This act changed the corporate tax rate from 35% to 21% on all corporate profits (Pomerleau). The tax rate

decline of 14% on all corporate profits was drastically beneficial to all C-Corporations (After Tax). In the earnings call, as well as an interview, the CEO of People’s Intermountain Bank, Len Williams, emphasized the impact of this reform. In 2018, People’s Intermountain Bank incurred tax expense of \$12.1 million compared to \$16.5 million in 2017 (Williams). When seen through the lens that net income doubled between these years, the tax reform is significant.

People’s Intermountain Bank incurred expenses in 2017 that took its earnings performance lower than past years. The bank incurred a one-time deferred income tax expense of \$4.7 million as well as expenses for its merger and acquisition totaling \$4.8 million (2017 Annual Report).

People’s Intermountain Bank has \$2.2 billion dollars in assets and therefore falls in peer group four (\$1-\$3 billion in assets). When compared with its

peer group, People’s Intermountain Bank is ranked in the 91st percentile with ROA at 1.9% versus the peer group average at 1.24%. In the last five years People’s Intermountain Bank has increased its ROA by 52% with nearly constant increases year-over-year (FFIEC).

ROE has improved 81.7% to 14.9% for the year ending 2018. People’s Intermountain Bank has been well above its peer group in ROE for the last five years (FFIEC). The increase from 2017

to 2018 was primarily due to the acquisition and merger in 2017 coupled with the tax reform.

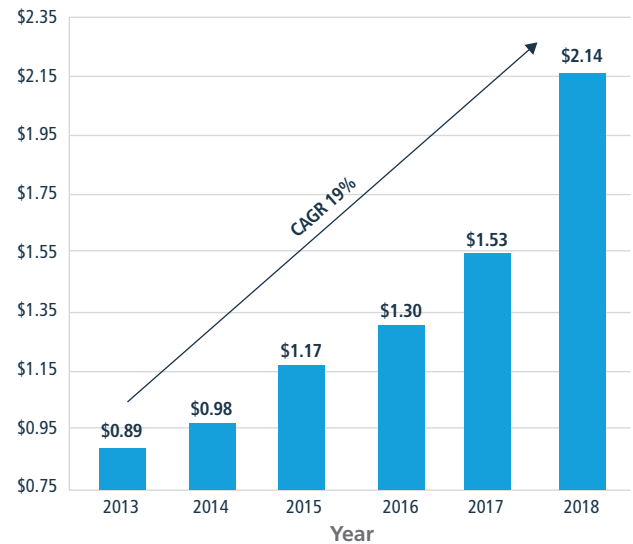
People’s Intermountain Bank went public in 2015 and has had a constant increase year-over-year in EPS. In 2015 the core EPS was \$1.17. From year end 2017 to year end 2018 EPS increased from \$1.53 to \$2.14, an increase of 40% (FFIEC). Much of the drastic increase from 2017 to 2018 can also be attributed to its merger and acquisition at the end of 2017.

Interest income declined from 2008 to 2014 due to the great recession. Since 2014, the interest income has steadily increased from 4.37% to 5.33% an overall increase of 22%. Along with the interest income rising, net interest margin widened 55 bps to 5.29% year-over-year primarily due to the gain of more loans than deposits from its merger and acquisition (People’s Utah Bancorp Reports).

B. Loan Portfolio Composition

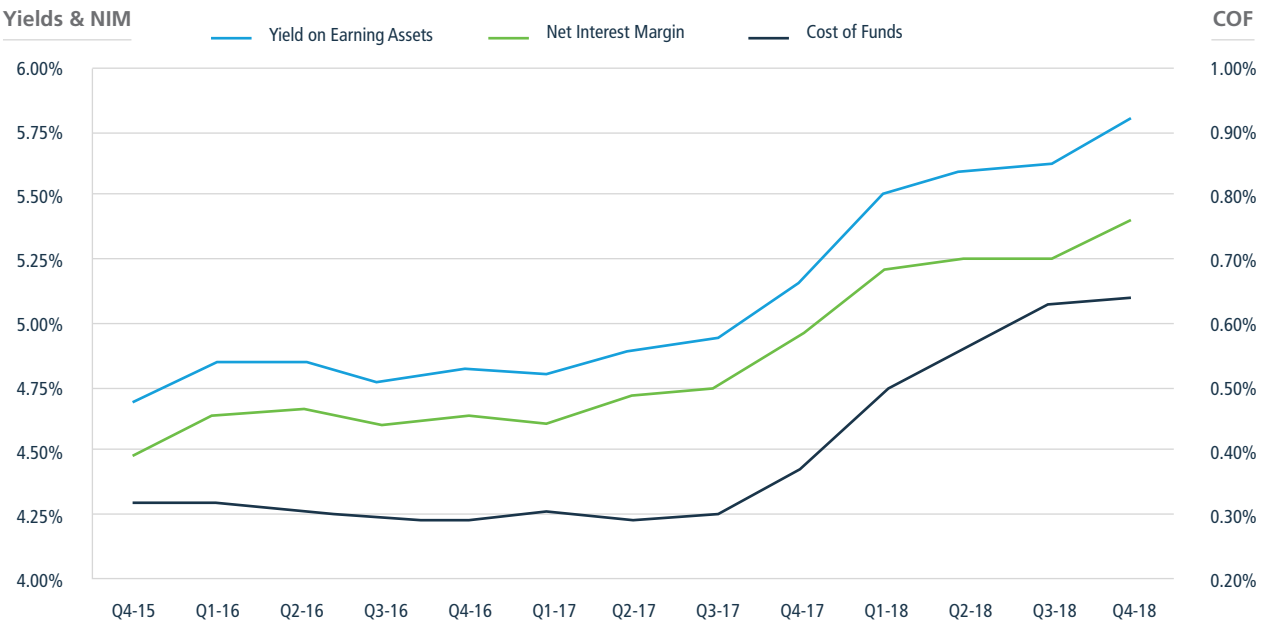
People’s Intermountain Bank is heavily concentrated in commercial real estate loans.

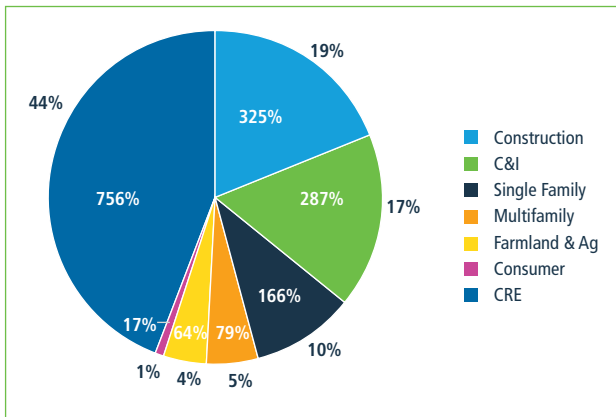
Annual core EPS



ROA Peer Comparison

Yields & NIM





The bank’s strategic diversity manages risk while maximizing profitability. Commercial real estate (CRE) loans are the leading category followed by construction, commercial and industrial, and single-family residence (FFIEC).

The State of Utah is the third fastest growing state in the nation (Clarke). In 2018, the population growth rate was 2.2% which was just below 2017 at 2.3% (Perlich). Much of that growth is realized in southern Utah and the communities surrounding the bank’s headquarters. This has provided great opportunity for People’s Intermountain Bank to capitalize on CRE and construction loans as many people are migrating and business development is at a historic high.

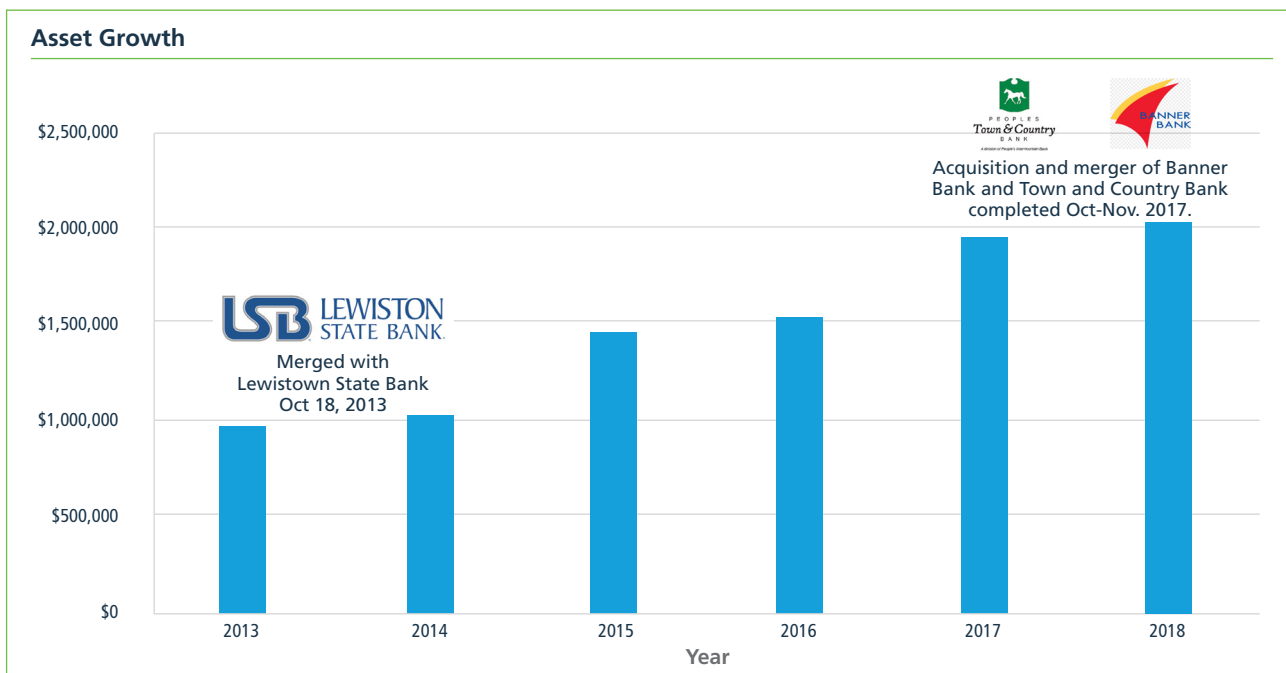
The loan composition is carefully monitored and strategically managed as the bank maintains compliance with regulations, while pursuing profitability and customers’ needs. The State of Utah is expected to continue in growth of population and economic opportunity. People’s Intermountain Bank expects loans to continue to grow organically, as well as through acquisitions and mergers.

People’s Intermountain Bank has specific goals set in growing commercial and industrial in both loans and deposits (Williams).

C. Asset Growth

For the past decade, People’s Intermountain Bank has had consistent asset growth. Over the last 10 years the bank has seen growth of 149% in assets. At the beginning of 2017 it had \$1.53 billion in assets and by the beginning of 2018 it had total assets of \$2.0 billion (FFIEC). Along with organic growth, the bank received excess capital for investing from its IPO. In October of 2013, Bank of American Fork merged with Lewiston State Bank creating People’s Intermountain Bank. Lewiston State Bank had a total of \$257 million in assets at the time of the merger. Additionally, in 2017 they realized a gain in assets from an acquisition of seven branches of Banner Bank and a merger with People’s Town and Country Bank. The acquisition of Banner Bank totaled \$260 million in acquired assets. The merger of Town and Country Bank contributed an additional \$135 million in assets. In the last year the bank’s total assets increased a subtle 2.8% due to integration of the merger and acquisition along with new management.

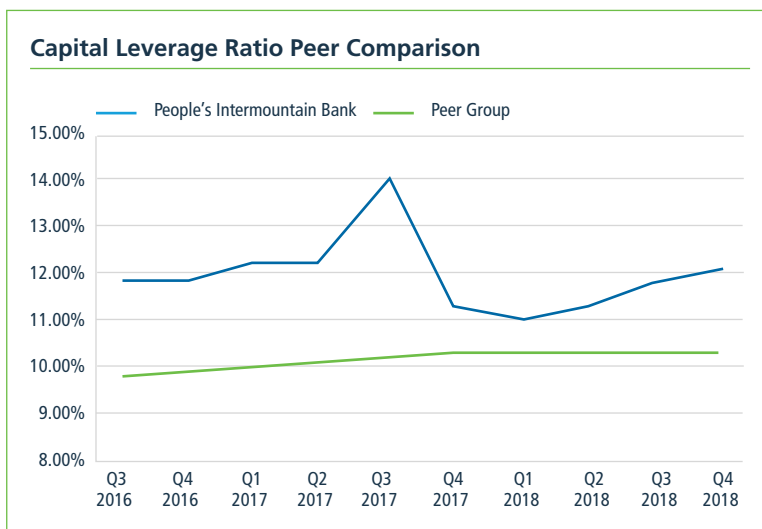
Not only are assets growing, but asset quality has been improving. Over the last five years there has been a percentage decrease in delinquent loans of 0.4% and non-performing assets of 1.4%. People’s Intermountain Bank has been conservative in asset quality compared to its peer group historically. This is primarily achieved through strategic management of the loan portfolio.



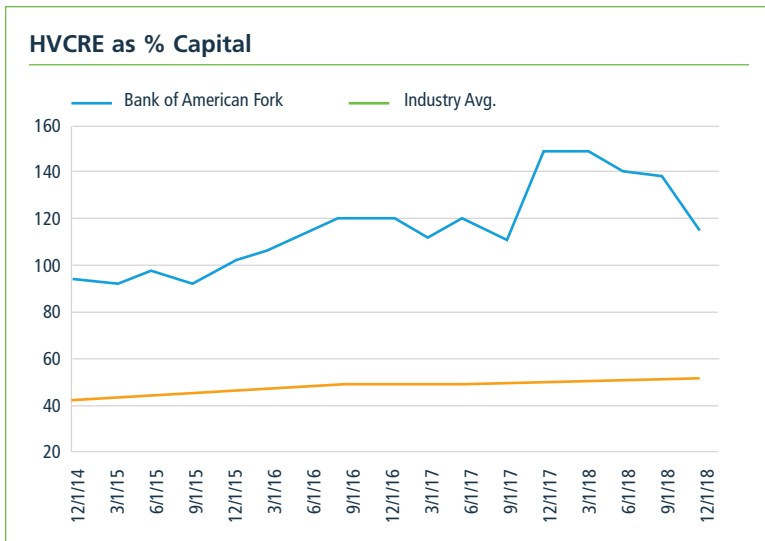
D. Planning and Capital Levels

Len Williams, CEO of People’s Intermountain Bank, stated that the bank is active in seeking out acquisitions while growing organically. In the same interview, he said that they are very mindful of the effects that acquisitions have on the bank’s loan composition and capital levels. He stated, “Our compliance team has reviewed the changes in capital levels and loan composition that would accompany an acquisition before we express interest” (Williams).

People’s Intermountain Bank has been aggressive with loans and compliant to regulations surrounding high volatility commercial real estate (HVCRE) loans. However, the bank is slightly above the 100%



HVCRE guideline pertaining to HVCRE as a percentage of tier I capital (Olson). With excellent management and guidelines pertaining to specific categories of CRE (Hotels, assisted living, construction, etc.) the bank is comfortable being over the established guideline of 100%. For example, in 2018, they observed an over concentration geographically,

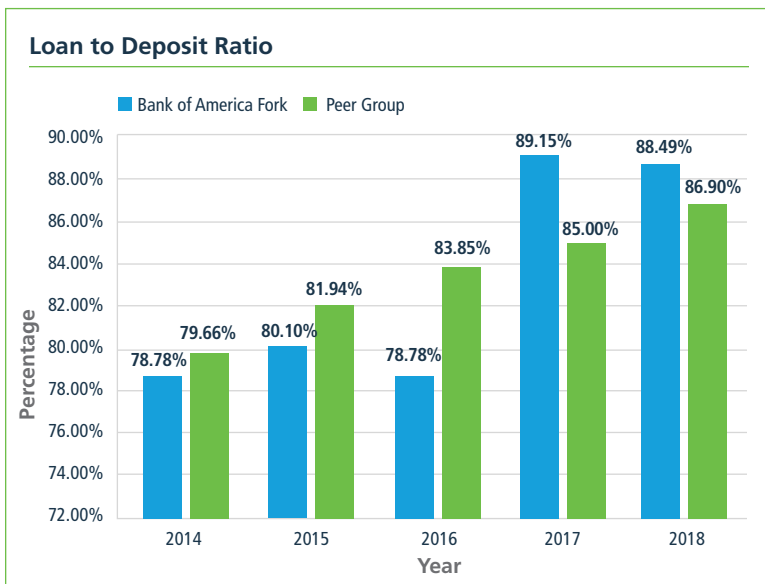


loans. People’s Intermountain Bank feels confident in its diversity and management within each sector of HVCRE to be above the suggested level, although it is accompanied with additional scrutiny from regulators.

E. Liquidity

Deposits are a new area of focus for People’s Intermountain Bank. The bank is aggressively seeking to grow business deposits through the addition of a treasury management team. In a conference call regarding the deposits, Len Williams stated, “We’ve already experienced some positive trends with the treasury services team bringing in more than \$25 million in deposits since we hired the team a quarter ago” (Williams).

Another competitive strategy for increasing deposits currently is offering a 2% annual interest rate, paid out quarterly as an initiative for customers (Allen). The bank faces the competition of interest rates from large credit unions in Utah who are not subject to income taxes, allowing them to pay higher interest rates to depositors.



as well as within the hospitality sector, resulting in the sale of a \$7 million hotel loan at par. “We sold a \$7 million hotel construction loan as we actively reduced our hotel loan concentration by 12%, to \$56 million overall, which is well within our guidelines” (Williams and Olsen 2).

Through strategic portfolio management the bank maintained the appropriate levels of capital to justify its aggressive position with

Over the last 10 years, People’s Intermountain Bank has grown its deposits 162% and 100% in the last four of those years (FFIEC). The large increase in the latter years is primarily due to the acquisition of Banner Bank and the merger of Town and Country Bank.

In the last two years, its loan to deposit ratio increased nearly 10%. This increase places People’s Intermountain Bank above the average of peer group four. Mark Olson, chief financial officer, emphasized the bank’s need for more deposits, which would drop its loan to deposit ratio to a more prudent percentage (Olson).

Part II: Regulatory Compliance/ Burden Assessment

The two regulations that were brought to attention by People’s Intermountain Bank as being the most burdensome prior to the passage of EGRRCPA were various consumer protection acts and the exam cycle. Even though the consumer protection acts were not necessarily burdensome for the bank itself, the bank feels these regulatory requirements made it difficult to effectively serve customers. Ryan Jones, chief lending officer, expressed, “The most frustration we’ve felt is in some of the consumer protection laws. We feel like those have maybe gone too far, to the point that they are actually hurting consumers by limiting their choices and commoditizing things. Relief there could help” (Jones).

Amy Dunkley, AVP and mortgage manager, shared a similar sentiment voicing, “There are things that are so heavily regulated that even if the consumer understands and even if they wanted to close, they aren’t allowed to. There are a lot of things that are intended to protect the consumer that also hurt the consumer. Especially at People’s Intermountain Bank we want to help the consumer. We want to provide a place that is safe, fair, and honest, and we

feel that we do provide that. However, some of the consumer protection laws add this extra layer that could actually hurt the consumer” (Dunkley).

The burden associated with the consumer protection acts fall much heavier on the consumers than the bank. The increased regulation in this area requires a greater understanding from mortgage officers and managers, but People’s Intermountain Bank did not recognize any regulatory fees or excessive costs relating to these laws. Wages and benefits were the only costs associated with compliance of consumer protection acts (Messina).

Prior to the passing of EGRRCPA, the 12-month exam cycle was the greatest regulatory burden. Williams also noted that the exam process “takes your eye off of the ball for a couple of months” (Williams). The greatest cost that the bank pays for the exam cycle is time.

Bank management takes their effort away from serving the community to prepare for

Wages and benefits were the only costs associated with compliance of consumer protection acts (Messina).

People's Intermountain Bank has employees designated solely to compliance.

the exam. This process include months of preparation, weeks of answering questions and proving statements to regulators, and reviewing earnings performance. The monetary costs consist of wages and benefits paid to full-time employees responsible for overseeing the exam cycle process (Messina).

Total regulatory compliance costs equaled \$1,184,606 in 2018. Unlike the study done by CSBS which reported compliance costs falling 13% in 2018 for community banks (2018 Community Bank Survey), People's Intermountain Bank did not see any changes in their compliance costs from the previous year (Allen). Specifically regarding costs relating to EGRRCPA, Mathew Messina, AVP and compliance officer at People's Intermountain Bank, said, "We have seen no measurable or demonstrable change in compliance costs since the passage of EGRRCPA" (Messina).

People's Intermountain Bank has employees designated solely to compliance. Messina

explained, "For work duties falling within a reasonable definition of compliance, the bank dedicates the equivalent of twelve-and-a-half full-time employees (FTEs) to compliance work duties eight-and-a-half full-time compliance employees in various departments and roughly the equivalent of four additional FTEs from a number of other employees who perform significant compliance duties in the course of their work. Additionally, there are four full-time members of our internal audit team" (Messina).

The total compliance cost of \$1,184,606 primarily contributes to wages and salaries of the full-time employees. These employees advise, oversee, and train the banking staff on these compliance procedures. Additionally, these employees research, implement, and manage regulations as they interface with regulators. While the compliance department is responsible for the completion of these activities, bank management and employees from other departments often assist in compliance-related tasks. This makes it difficult to fully quantify regulatory and compliance costs.

In regard to the change in compliance costs relating to EGRRCPA's regulatory relief, Messina explained, "The passage of EGRRCPA, and the subsequent accompanying changes in regulation, have not decreased the number of employees the bank dedicates to compliance.

Furthermore, there is no noticeable or measurable decrease in the workload of personnel working in compliance as a result of EGRRCPA" (Messina).

EGRRCPA Provisions and Impact on Case Study Bank

Provision	\$ Impact expected by year end 2019		
	Benefit Bank	Balance Sheet	Net Income
Simplified Capital Rule	N	N/A	N/A
Small Bank Holding Company Threshold	N	N/A	N/A
Highly Volatile CRE	N	N/A	N/A
Qualified Mortgage	N	N/A	N/A
Escrow Requirements	N	N/A	N/A
HMDA	N	N/A	N/A
Waiting Period on Credit Offers	N	N/A	N/A
Exam Cycle	Y	Unquantifiable	Unquantifiable
Volcker Rule	N	N/A	N/A
Short Form Call Report	N	N/A	N/A

People’s Utah Bancorp relies on third parties for compliance purposes. Jon Allen, chief compliance officer, explained, “Other than having an internal audit department, we also use external audit firms to help us with making sure our financial statements are accurate and controls are working the way they are designed to work to protect the bank and its consumers” (Allen).

Allen also explained that they hire outside attorneys, consultants, and purchase both training and software to aid compliance efforts.

Part III: Review of Relevant EGRRCPA Provisions and Impact on Bank

The Economic Regulatory Relief and Consumer Protection Act (EGRRCPA) was signed by President Trump on May 24, 2018 with the intention of helping community banks receive

regulatory relief and thrive in a growing economy. However, People’s Intermountain Bank has yet to experience a significant and quantifiable change. As mentioned previously, People’s Intermountain Bank is a conservative, well-capitalized, and well-managed bank. It is a bank that strictly follows its core competencies and strategy. Due to the strategy and size of People’s Intermountain Bank, it has not been able to take advantage of many of the provisions outlined in S.2155. The effects of the provisions are as follows:

Exam Cycle

People’s Intermountain Bank saw minimal effect from S.2155 because of the bank’s strategy. The most relief felt by the bank came from the extension of the exam cycle. According to S.2155, banks under \$3 billion in assets that receive positive CAMELS ratings (Capital adequacy, asset quality, management, earnings, liquidity,

sensitive to market risk) from regulators can now be examined every 18 months rather than every 12 months. Previous to the passing of this bill, the exam cycle extension was only available to qualifying banks operating under the \$1 billion asset threshold.


While an important and appreciated process for the institution, regulatory examinations are very resource intensive. Examinations require months of preparation from the bank's management teams culminating in a comprehensive three-week on-site visit. Walk-throughs are conducted, questions are answered, and many meetings are held to make sure the bank is compliant with all regulatory guidelines. Daily tasks must still be completed by all members of the bank during these weeks. Moving from a 12-month to 18-month exam cycle will create additional time for improving internal bank operations.

Marc Bule, chief audit officer, highlighted the qualitative benefits the relief will bring. "With

the 18-month cycle we are able to focus our efforts on those areas that are most important to the bank—the high-risk areas. Everything we do as internal audit is risk related. Focusing on the high-risk areas helps the bank and helps management. Our job as internal audit is to provide reasonable assurance to management that internal controls are in place and functioning. If we have the time freed up, not spending time with examiners, but actually in our internal audits we are able to provide the coverage necessary for management as needed. We can focus on serving the community" (Bule).

The new 18-month cycle will not only give employees of the bank more time to work on individual assignments and serve customers, but will also allow additional time to implement changes recommended by examiners. Putting new controls and processes into place can be a difficult and timely task. When implementations have finally been fully integrated, the bank may have little track history for regulators at the start of the next cycle.

Bule explained, "If there is software or a major process that has to be implemented, the 18-month cycle will potentially give us enough time to implement that, put the right people in place, test it, vet it, make sure it is up and running, and then the examiners can come in and validate that new process or software" (Bule). People's Intermountain Bank predicts that extending the exam cycle will increase the quality of feedback from examiners as there will be a longer history of implementation.



Putting new controls and processes into place can be a difficult and timely task.

These expected changes, while significant, are not financially quantifiable. Messina spoke on this saying, “We pay fees to both the FDIC and the State on many things, but not on whether we have an exam. The extension of time between exams will provide no measurable cost relief for the bank. There will be a productivity increase for those employees working on the exam but it would not be quantifiable” (Messina). While these changes may not directly impact the financial statements, the extensive hours of extra attention the bank’s processes and internal controls will receive should not be overlooked.

Simplified Capital Rules

New EGRRCPA provisions regarding simplified capital rules state that if a bank with less than \$10 billion in assets holds a bank leverage ratio equal to or greater than the Community Bank Leverage Ratio (CBLR), then the bank will be exempt from all other leverage and risk-based capital requirements (Perkins 14). Regulators are currently in the process of setting the CBLR between 8%-10%. Senators Mike Crapo and Jerry Moran are currently fighting against regulators, who prefer 9%, to set the CBLR at 8%. Darryle Rude, Chief Examiner at the Utah Department of Financial Institutions, also supports the 8% movement, citing it will help community banks in Utah (Rude).

“If they do not simplify the ratio there will be no regulatory relief to any community bankers, and the intention of Congress was to provide regulatory relief. At least by putting it at 8% that would provide community bankers regulatory relief. If it stays where it’s at with the prompt

Regardless of the final ratio, the simplified capital provisions will not apply to People’s Intermountain Bank on two fronts.

corrective action rules being more restrictive when you accept with the CBLR, there will be very few banks that take advantage of that regulation” (Rude).

Regardless of the final ratio, the simplified capital provisions will not apply to People’s Intermountain Bank on two fronts. Firstly, the bank is very well capitalized. The bank’s chief financial officer, Mark Olsen, stated, “Given the makeup of our portfolio, we have decided to hold additional capital above and beyond what the regulators require from us. We generally hold our capital above 11%” (Olsen). It currently sits at 12.12%. While an 8% ratio would provide relief for many community banks, a CBLR below 11% would not affect People’s Intermountain Bank. The bank holds a high ratio as well as high loan-loss reserves to offset risk in its portfolio, to keep itself well equipped for the next downturn, and to be prepared for future bank acquisitions (Williams).

People's Intermountain Bank has an advanced way of monitoring all of its real estate and internally classifying risk.

Secondly, People's Intermountain Bank chooses to examine and internally report a wide range of different leverage and risk-based ratios. While regulation does not specifically require the in-depth ratio analysis that People's Intermountain Bank maintains, the bank's management sees these ratios as imperative if they are to keep the bank well-managed and competitive in today's economic environment.

High Volatility Commercial Real Estate

People's Intermountain Bank is highly sophisticated in the way it configures, tracks, and monitors its loan portfolio. Since the merger and acquisition in 2017, the bank has between 125%-150% HVCRE ratio as a percent of capital and stays under 300% for CRE as a total percent of capital (FFIEC). While many banks are running away from commercial real estate lending, People's Intermountain Bank is embracing it as its niche and is confident that its management expertise and conservative capital strategy provides it with both great advantages and great returns (Williams, Olson).

The portfolio is managed according to internal processes independent of outside guidance or scrutiny from regulators.

Changes in S.2155 provide commercial real estate projects additional avenues to shed their HVCRE status. Appraisal values can now be included in the 15% minimum contributed capital threshold, a project already producing income does not have to be classified as HVCRE, and a HVCRE loan can be reclassified once it begins generating sufficient cash flow (Interagency Statement 3). These changes did not affect People's Intermountain Bank's lending guidelines or procedure because the bank has always required an initial contribution of capital on average of 30-40% which is greater than 15% (Jones). Bank management relies more heavily on their internal ratios and guidance than that provided by regulatory agencies.

Jones described, "We fine slice our portfolio. We break our commercial real estate portfolio in many categories and we monitor the percent of capital in each one of those categories. Some examples of these are owner occupied real estate, non-owner-occupied investment real estate, how much is construction and land acquisition versus completed projects, hotel/motel, care centers, storage units, retail space, assisted living center, office space, and others" (Jones). People's Intermountain Bank has an advanced way of monitoring all of its real estate and internally classifying risk. This has kept the bank at the head of the pack while still holding a conservative strategy. These internal systems are not just for show but lead to action.

Referenced earlier, a large hotel loan in St. George, Utah was sold by the bank at par value in 2018 (Williams). This sale occurred because of high geographical concentration of the bank’s hospitality segment, and bank officers wanted to internally reduce exposure in that specific sector. This sale did not come as a result of outside guidance or HVCRE regulation change (Jones). Prudent monitoring, as well as controls put in place, justifies People’s Intermountain Bank to sit in the 99th percentile for both HVCRE as a percent of capital and CRE as a percent of capital in peer group four (FFIEC). Many see this as high-risk, but because the bank prepares well and manages its assets in a conservative way, the risk is offset. The bank is more concerned with its internal evaluations of CRE lending than the regulators.

Waiting Period on Credit Offers

The enactment of S.2155 allowed for the three-day waiting period on a mortgage to be waived if the consumer received an amended disclosure that included a lower interest rate than was offered in the previous disclosure (ABA Supports S.2155 2). Dunkley stated that even with the new change, “S.2155 did not affect the mortgage department at Bank of American Fork. The mortgage department was not affected because, even previous to the bill, People’s Intermountain Bank was not delaying closings when there was an improvement like this to the consumer” (Dunkley).

Short Form Call Reports

People’s Intermountain Bank is a publicly traded entity. As such, management consistently provides in-depth and well-detailed quarterly

reports to their investors. While short form call reports for two out of the four quarters may provide compliance relief for private community banks who are only reporting to regulators (Perkins 18), People’s Intermountain Bank is unaffected by this relief because each quarter it is required to present its financial information and standing to the public (Bule). Quarterly reporting at the bank not only boosts investor confidence, but it also results in bank management having a firm handle on their operations and financials.

Qualified Mortgage

For banks under the \$10 billion asset threshold, EGRRCPA’s qualified mortgage provision allows certain mortgages to be automatically categorized as “qualified mortgages.” Only mortgages that banks originate and hold in their portfolio can obtain this categorization (Perkins 5). This relief does not apply to People’s Intermountain Bank because its mortgage department sells all qualified mortgages (Dunkley).

The bank is more concerned with its internal evaluations of CRE lending than the regulators.

Volcker Rule, Escrow, HMDA, Small Bank Holding Company Threshold

The provisions listed above hold no weight at People’s Intermountain Bank because the bank either does not engage in proprietary trading, generates too many mortgages, or is not involved with significant debt issuance at the holding company level (Perkins).

Williams summarized the overall effect of the regulatory relief by saying “EGRRCPA did not impact us very much at all because we have historically run ourselves in accordance with the prior regulatory rules and requirements anyway. So this relief does not matter a whole lot to us. We are still going to maintain the conservatism that we have. The one benefit that we did get was the longer period between exams” (Williams).

Equally important to the relief has been the administrative changes in the federal

regulatory agencies. During 2018, new directors were appointed to both the FDIC and the CFPB. Since then, both organizations have experienced changes in positions such as general counsel, deputy chairman, senior deputy general counsel, and director of external affairs among others (Sparks). Williams shed light on this saying, “We have received positive movement from the FDIC. The tone from the FDIC is how can we help banks? How can we be transparent in what is going on? You’re going to know why we’re asking for it, how it benefits.” Regarding the CFPB he said, “The community banking perspective on them has changed a lot. They are improving from a more backward-looking view to a more forward-looking one” (Williams).

Looking forward, there are no practical ways for People’s Intermountain Bank to better take advantage of unapplied EGRRCPA provisions. As already discussed, the bank operates under a well-capitalized and conservative strategy which resulted in it realizing minimal effects from EGRRCPA.

Due to People’s Intermountain Bank not experiencing any relevant relief other than from the exam cycle extension, the bank is not in a better position to serve any more customers than it was previous to the passing of the bill. Because of this, there will be no economic impact foreseen on the community as a result of S.2155. This occurs because of the unique way that People’s Intermountain Bank functions and operates. As already explained, the bank was functioning incredibly well within the regulations set forth by Dodd-Frank.

Looking forward, there are no practical ways for People’s Intermountain Bank to better take advantage of unapplied EGRRCPA provisions.

It will continue to serve the community and provide quality economic relief and service to its customers. Rude commented on the importance of community banks in Utah saying, “We feel like the community banks offer great value to the community. Servicing the local residents, offering a variety of products and services: ag loans, construction loans, commercial loans, and personal loans. Having a deposit base in those communities and having access to local decision makers is very important as well” (Rude).

With the strong growth the bank’s primary market is experiencing, People’s Intermountain Bank is well positioned to continue its current strategy. Operating at a higher level and with much more sophistication than most community banks of its size, the bank will continue to effectively serve the community even without major relief from S.2155.

Part IV: Looking Forward

People’s Intermountain Bank has historically been prudent and continues looking forward with optimism. In the last year specifically, People’s Intermountain Bank has seen huge growth primarily due to an acquisition and merger. The bank is constantly seeking to expand its customer base and better serve their existing customers (Williams). This study found four specific ways that reasonable adjustments to regulations could potentially benefit People’s Intermountain Bank.

The exam cycle was changed from 12 to 18 months for qualifying banks with the passing of S. 2155. Bule suggests that an exam every 24

People’s Intermountain Bank has historically been prudent and continues looking forward with optimism.

months would be sufficient for strong banks. He argues that the banks’ financials are available to regulators who could monitor minor changes remotely and intervene when necessary.

Changing the exam cycle to 24 months would allow additional allocation of the bank’s limited resources to innovation, implementing prior exam’s recommendations, and satisfying their customers.

Management at People’s Intermountain Bank is adamant that accounting and regulations boards should reconsider the implementation of CECL. This new regulation will require banks to hold life of loan-loss reserves on the balance sheet instead of one year’s worth of allowance. “The perspective from both the accountants and regulators is that it will provide a cushion for banks in the case of an economic downturn. Unfortunately, the impact I don’t think they’re considering is that adding the additional reserves will negatively impact the consumer. If a bank has a longer-termed loan they have to hold more capital for that loan. Banks are going

Large credit unions are a primary source of competition for People's Intermountain Bank.

to look at that and say well let's shorten the term of the loan so that we're not having to hold additional capital" (Olsen).

People's Intermountain Bank is well-capitalized and intentionally carries excess capital to cover for a potential downturn. CECL will hurt both the bank's capital and its customers (Williams). "We'd like for regulators and accountants to reconsider the decision increase the overall reserves. It will create greater volatility in earnings, and it is procyclical with respect to when you're setting aside the reserves. You're going to be setting them aside at the exact opposite time of when you want to. We think it is going to be negative overall" (Olsen).

Another change that could be utilized at People's Intermountain Bank would be the ability to fund mortgages in a more convenient way for the customer. The bank feels many consumer protection regulations often result in unnecessary delays for customers. Dunkley stated, "There are several things that we're required to do that delay closings for the

consumer. There are several timing issues that could be changed, this could be with cures, appraisal delivery, and other things, to help the consumer. If a consumer is well informed throughout the loan process and they've received all of their information, then they should be able to close timely (Dunkley).

The bank sees this as a reasonable change particularly because they educate the customers. "There are a lot of things that consumers want that can even further delay the closing process. This means they can't close or they could lose the home. There are a lot of different situations where a consumer request would actually help the consumer, but we're very limited moving forward because of the regulations" (Dunkley).

The State of Utah has two credit unions that are significantly bigger than People's Intermountain Bank. Mountain America Credit Union has \$8 billion in assets and America First Credit Union sits at \$10 billion. Additionally, there are three other credit unions that are similar in size to People's Intermountain Bank (Credit Unions). Credit unions are not subject to income tax. This unlevelled playing field seems unfair to many in the community banking industry.

Large credit unions are a primary source of competition for People's Intermountain Bank. Interest rates on deposits are likely to be higher at credit unions and lower for borrowers. For example, there has been a major shift in automobile lending towards credit unions. This in turn places a burden on community banks to either match credit unions' interest rates,

resulting in lower earnings performance, or lose customers. People's Intermountain Bank would benefit from credit unions and banks being regulated and taxed similarly.

In similar fashion, unregulated fintech companies are competing with People's Intermountain Bank in the banking space. "The bank is currently trying to stay competitive with fintech companies. There are accounts that are available for deposit and credit accounts that are available online. It's very customer oriented. It is online and for us to be able to compete with that is going to be difficult. We have to have the right technology, it has to comply, it has to be safe, but it's got to be quick and efficient as well" (Bule).

"Simply put, banks have a lot of competitors. The way we choose to compete is by figuring out what we can beat them at and what we can be the best at. We need to invest our time in training the bankers, aligning with the right products, and insuring that we have a value proposition that is the best for our market. Whether it is better, faster, or cheaper, we have to provide value that we can measure. Just being a bank on a corner 40 years was good enough because location drove profitability. Today we have competitors like Amazon, Apple, and other fintech companies entering our space. Today you've got to be different" (Williams).

Conclusion

In May of 2018, S.2155 was passed with the intention of offering regulatory relief to federally regulated financial institutions. This study has displayed the minimal effect that S. 2155 has had on People's Intermountain Bank. With the exception of the exam cycle changing from 12 to 18 months, People's Intermountain Bank realized no regulatory relief from S.2155. This lack of relief is primarily due to the bank being well capitalized and practicing prudent lending practices. People's Intermountain Bank sees a longer exam cycle, removal of consumer protection as it relates to mortgages, and equalizing credit unions and community banks as practical, possible areas of opportunity for congress to alter in the future. These changes would further help the bank accomplish its core value of strengthening its communities.

With the exception of the exam cycle changing from 12 to 18 months, People's Intermountain Bank realized no regulatory relief from S.2155.

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