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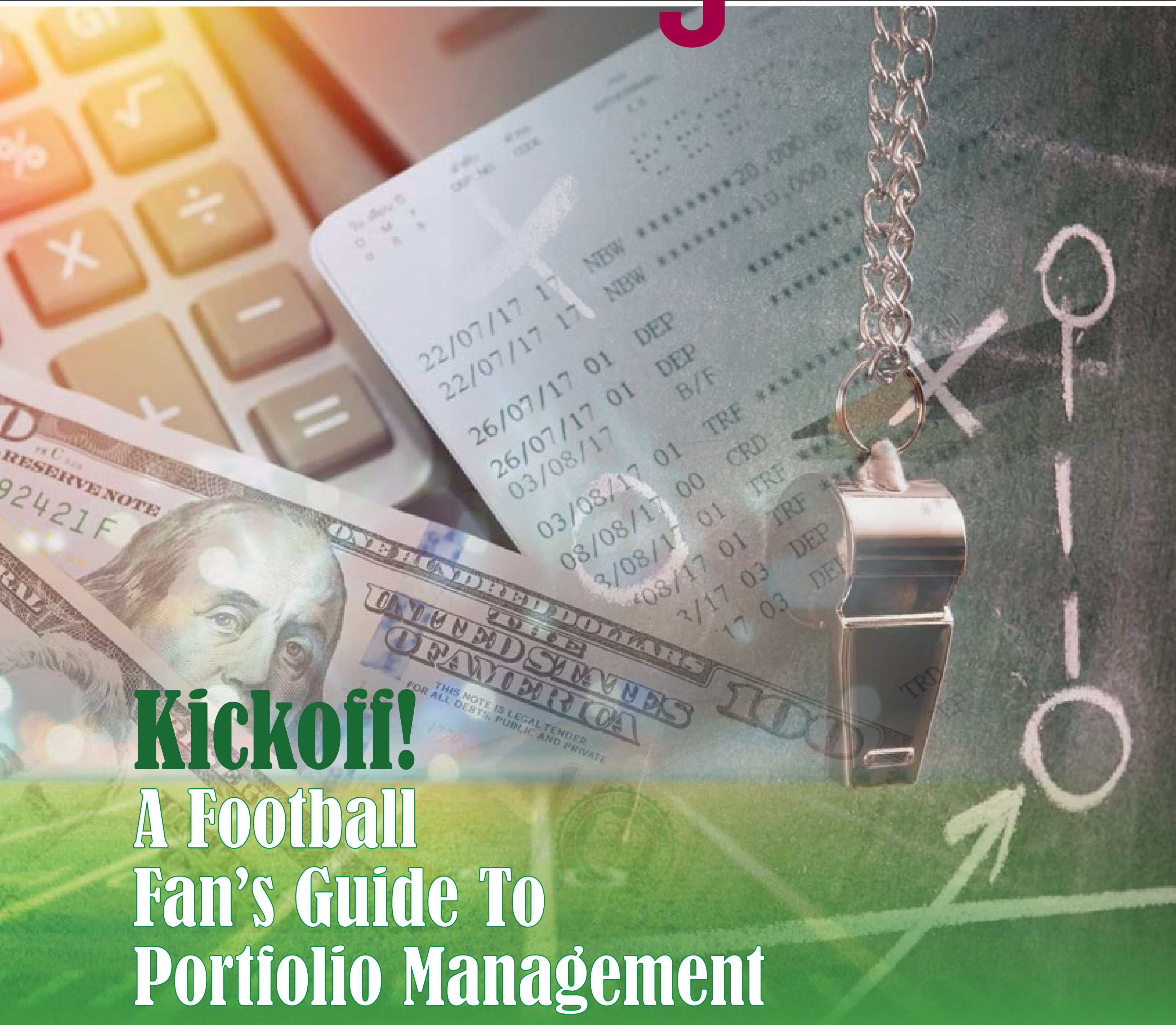
THE communitybanker



Kickoff!

A Football Fan's Guide To Portfolio Management

VACB

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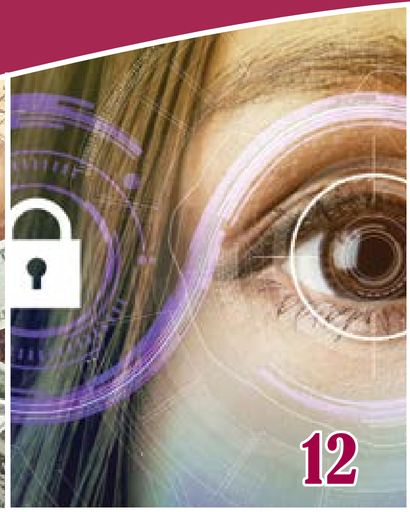

That's all it takes to set off a damaging cyber attack.

Cyber attacks come in all shapes and sizes. A massive data breach was set off by a malicious virus that wormed its way inside a company's computer network. A bank's weeklong loss of access to its email and electronic records most likely began with a click.

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Chairman's Message

2020 Impact on Small Business

By Lloyd Harrison
VACB Chairman
Virginia Partners Bank

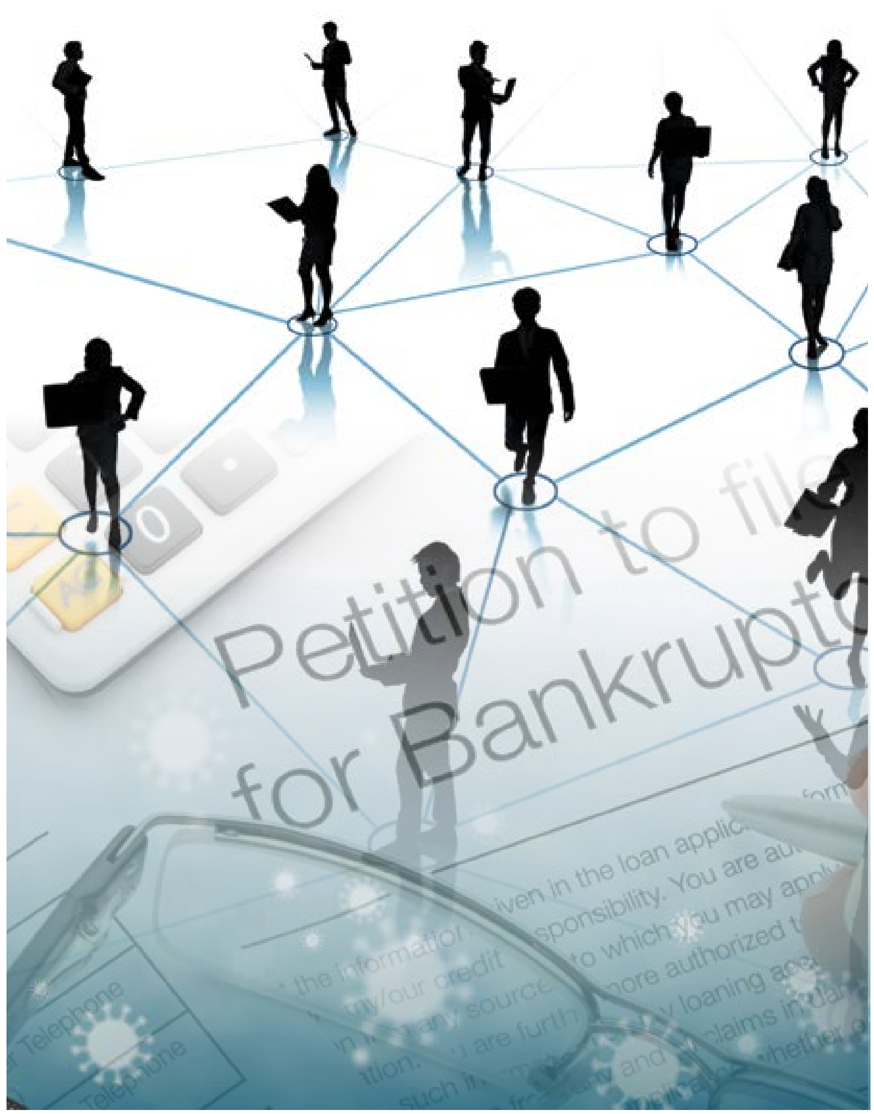
I think all of us can agree that 2020 needs to go away. Of course, we can't snap our fingers and make it happen, and even if we could, the effects will linger.

The economy is by no means out of the woods. I am particularly concerned about small businesses, the engines of Main Street America. It is well-established that small businesses create the majority of new jobs. They employ about half of all workers, and account for about 44% of the U.S. economy, according to the Small Business Administration. Small businesses come in a truly remarkable number of flavors. We all recognize the restaurants, florists, barbershops and boutiques in our local towns. Often overlooked are the myriad businesses tucked into side streets, offices or industrial parks, and even in somebody's home. And somebody's home may be someone else's small business. I know a lot of people who own a couple of rental houses as part of their strategy to plan for retirement.

Pretty much every business I know of has been affected. I know this from talking to my customers and others in the business community. These folks are worried. They are worried about customers coming back. They are worried about supply chains. They are worried about the health and safety of their employees. They are worried about the cost to comply with new rules and regulations and social expectations. When they see a local business shut its doors, they worry if they are next.

This is no idle concern. Chapter 11 bankruptcies are up over a third from last year. Yelp reports 80,000 small businesses have closed since March 1. Many small business owners, avoiding bankruptcy, simply decide to turn off the lights and lock the doors one last time.

The PPP money was disbursed and spent over the past few months. The last round of stimulus checks went out a few weeks ago. The temporary increase in unemployment benefits ended likewise. Politics in Washington have devolved into gridlock. In Richmond, though, the General Assembly will convene in an emergency session.



These are serious times, and I hope that our elected representatives on the state and national level will come to recognize the need for serious deliberations, devoid of partisan rancor. As they work to address the problems facing all of us, I hope they are mindful of the small business community. Care needs to be taken to avoid an avalanche of rules, regulations, mandates, and costs directed at business. One of the truths of the world is that small businesses are the least able to afford a phalanx of lawyers and accountants to comply with excessive regulation. It may be politically tempting to play a gotcha game, intending to take a swipe at big business, but small businesses invariably suffer collateral damage.

President's Message

How Are You Doing?

By Steve Yeakel, CAE
VACB President and CEO

It must surely be the most overused sentence in the English language. And never in the last 100 years has it meant so much to so many people, in our own neighborhoods and across the globe.

It has many derivatives, including my favorite, often uttered by my late great mother-in-law in her sweet Virginia mountain accent, "How you?" But the thought, when it carries one, is the same. The asker has some level of interest in knowing how the person being asked is coping with life, its ups and downs.

One of the major changes manifested by this persistent pandemic, perhaps unnoticed, is the evolution of that question from a simple greeting into a genuine desire to know how a partner in conversation, their families, and their co-workers are holding up under the significant stresses of the economic and health crises caused by COVID-19 and the social unrest that has troubled our souls.

An extended personal exchange has lengthened most of my phone calls since mid-March. "So, really, how are you doing?" is common to hear in my conversations.

So I urge you now, do keep me informed on this most critical issue: how are you doing? On the one hand, we have all been kept busy by PPP and a range of other needs for our customers and members. And that's a very good thing for all parties.

But the hard truth is that almost all of us are "Type A" extroverts, in a business that thrives on, and often claims sole ownership of, the powerful value of interpersonal relationships, and this peculiar challenge, this pandemic, has robbed us of the most powerful element of those relationships: the person-to-person exchange. That's one reason our August 3 golf tournament was so valuable. It was an oasis in the desert, to be sure.

So we shouldn't be concerned in the least about openly admitting how draining and downright sad it is that we've temporarily lost this essential function from our daily lives. Our work is critically important, and we're built to bear down and move ahead, which is a good thing. But in my view, we do that best when we occasionally pause to reflect on the loss of face-to-face conversations and claim the hope that the full return to them will be — glorious.

2020 VACB/Williams Mullen —
20th Annual Bankers' Cup Tournament

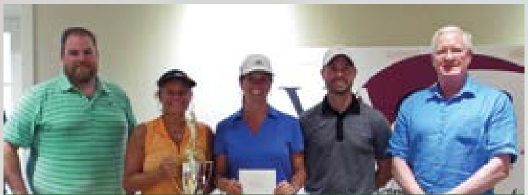







Despite COVID-19, VACB held its 20th Annual Banker's Cup Golf Tournament at Spring Creek Golf Club in Gordonsville. Originally scheduled for May, the tournament was held on a warm, but not too warm Monday, August 3rd. As the first outing for many participants, the mood was quite jovial, with golfers genuinely happy to be on the green and away from the four walls they'd been mostly confined to since the pandemic began in early March. This year's tournament was again sponsored by Williams Mullen, and we had 16 teams registered to participate. Once all instructions had been given, players wasted no time getting to their spots for the shotgun start. Throughout the tournament, players were well-fed and hydrated, thanks to our supporting sponsors. Vining Sparks, an endorsed provider of ICBA and the Federal Home Loan Bank of Atlanta, graciously sponsored the beverage carts during the tournament, and Sentry Management provided boxed lunches. Many thanks also to Source4, that provided logoed masks and bottles of hand sanitizer to keep everyone safe!

The weather had been threatening all day, and the storms finally won. Luckily it was late enough in the day that most of the teams were able to finish their rounds, but the tournament was ended due to lightning, and all teams were called off the course by the pro. Following play, everyone gathered for the afternoon reception at the clubhouse. As the Spring Creek golf pro tallied up tournament results to determine the winners, golfers enjoyed food and fellowship at the post-tournament meal and reception, appropriately socially distanced. VACB Chairman Lloyd Harrison and Steve Yeakel worked in the tandem awarding team and contest prizes at the reception. The 20th Annual Bankers' Cup tournament was a huge success once again, and we thank all our members for their support, both on and off the green! We couldn't do what we do without your help and support!



First Place Team
(Team Virginia Commonwealth Bank)
Ward Currin, Bonnie Howell, Matt Paciocco,
Terry Richards

Second Place Team
(Team Sonabank)
Rick Fulk, Larry Henshaw, Pat LeGault,
Joe Shearin

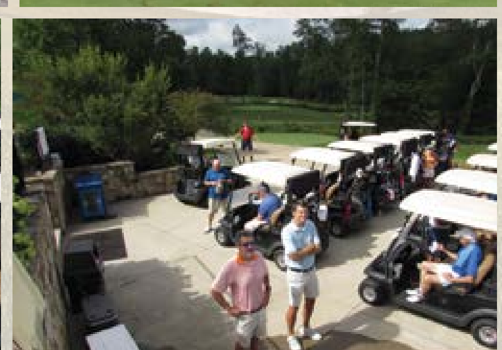
Third Place Team
Mike Dolliver, Jeff Harper,
Brad Meabon

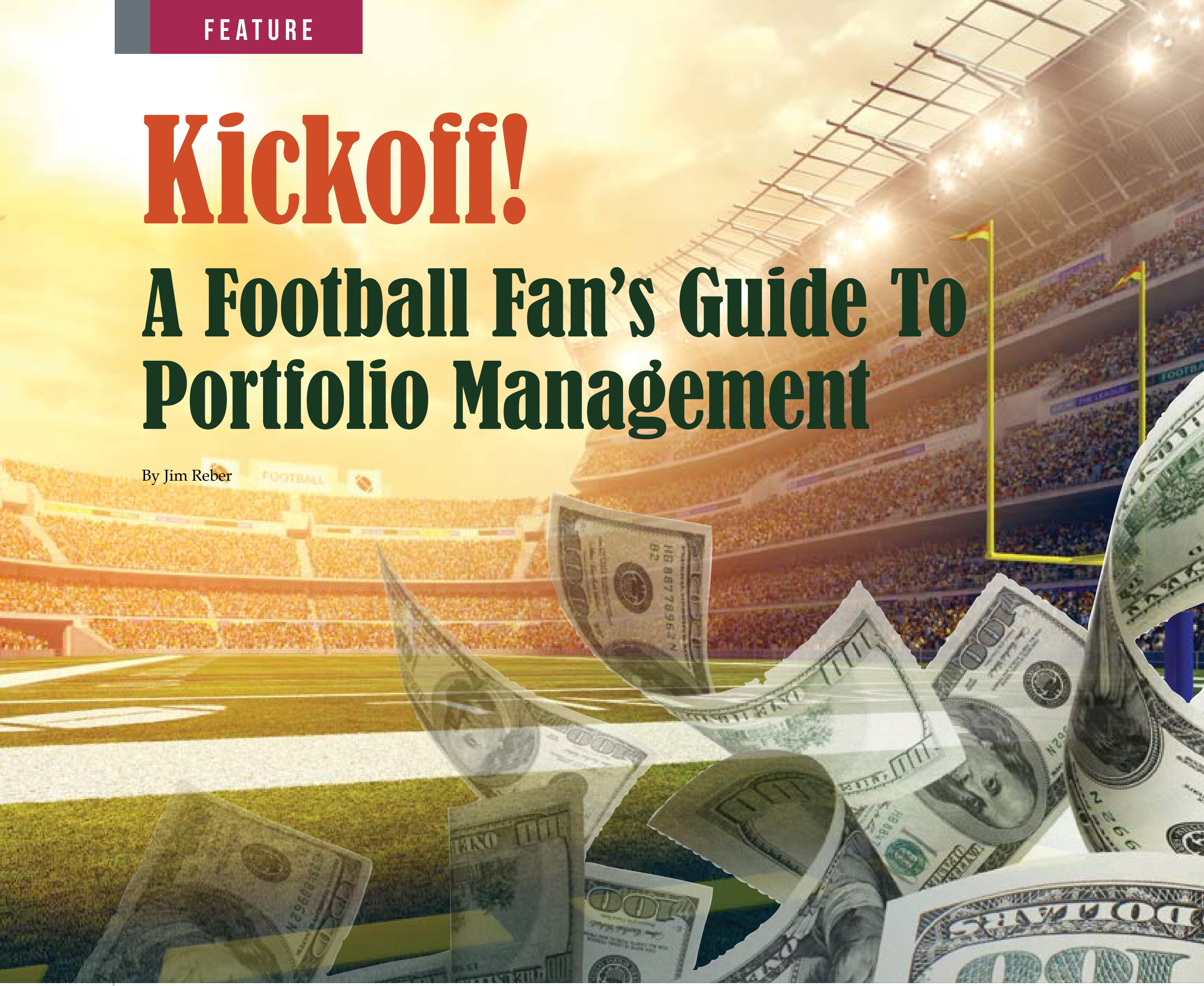
VACB Longest Drive Winner
Sponsored by Works24
Jenny Clark, Benchmark
Community Bank

VACB Closest to the Pin Winner
Ward Currin, Virginia
Commonwealth Bank

Kentucky Bourbon Winner
Duaine Fitzgerald, Bank of Botetourt
Provided by Jeff Harper & KlariVis

Titleist Golf Balls Winner
Scott Raney, Flora Pettit, PC
Provided by The Bank of
Charlotte County





Kickoff!

A Football Fan's Guide To Portfolio Management

By Jim Reber

As the calendar turns to the fall, millions of Americans gear up for their favorite sport of football. Of course, with this being a year unlike any other, we're still trying to figure out what it will look like. Nonetheless, what better way to usher in the new football season than to relate standard gridiron phraseology to its investment portfolio equivalent? Some of this may sound like a stretch for the sticks, but perhaps you can find a loose ball in the pileup. If so, hopefully, you can convert the takeaway into a visit to the sweet land of six.

Weight room

Many footballers prepare themselves for the season with frequent trips to the gym. There, they can make good use of barbells. Community bankers often utilize "barbells" to hedge their bets against rate movements. This strategy simply entails buying roughly equal amounts of very short-duration bonds and long-duration bonds. The definitions of "short" and "long" will vary from buyer to buyer, but in the end, the investor is going to be pleased with at least half of the holdings, regardless of whether rates rise or fall.

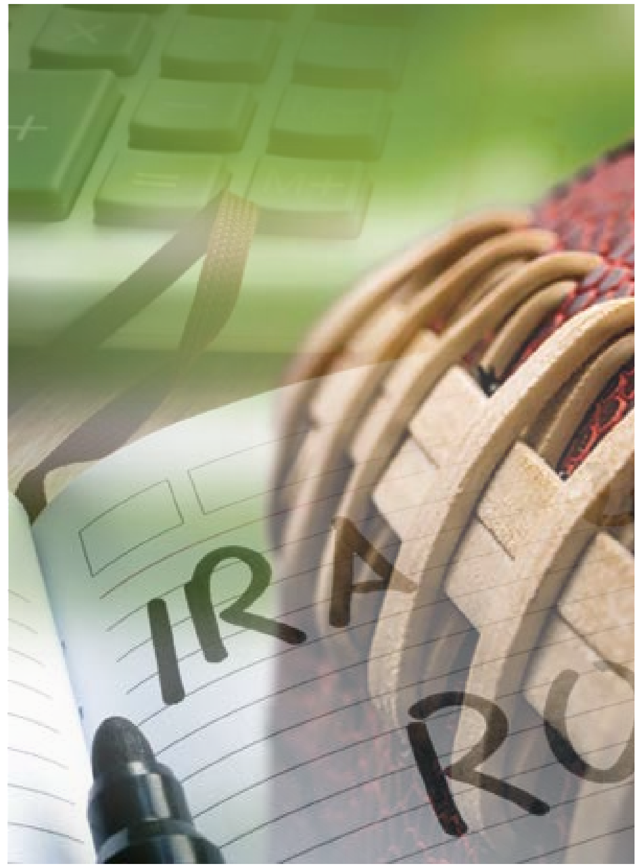
Run-pass option

This recent innovation of play-calling gives the quarterback the ability to decide on the fly whether to run the ball or throw downfield. In a similar sense, investors can do the same with a do-it-yourself floater. Most municipal bonds in community bank portfolios have a longer-than-average duration. Often, that is precisely the intention of the portfolio manager, as it may sync with the bank's interest rate risk posture. However, sometimes the manager decides the portfolio is more extended than desired, in which case the DIY is called. This entails the execution of a pay-fixed interest rate swap to turn the asset into a receive-floating adjustable rate bond.

Lockdown corner

The best way to explain this is to lift the definition from Wikipedia: "These elite defenders cover an offensive receiver so effectively on either side of the field that the quarterback

The third quarter of the calendar year for broker-dealers is often a period of low volume. Some of it has to do with portfolio managers not taking time to identify beneficial portfolio opportunities until the figurative two-minute warning.



does not target the receiver being covered." To the community banker, this means owning assets that cannot be called away or converted to cash when interest rates are not favorable (e.g., now). The way to lock down your assets is to buy "bullets," which have no call features, or securities such as multifamily mortgage-backed securities (MBS) that have prepayment penalties or yield-maintenance provisions.

Man in motion

This entails sending one or more offensive players running parallel to the line of scrimmage prior to the snap to better position them for the play. In investment management, its equivalent is the purchasing of newly issued bonds that have extended original settlement dates, which further coincide with upcoming maturities of bonds currently in the portfolio. This play has been especially beneficial in recent months, as the amount of maturities and calls have outpaced new issuances, creating something of a scrum among investors.

Nickel back

Sometimes a team will insert a fifth defensive back into the lineup on obvious passing downs to give it a better chance of covering the potential pass receivers. This "nickel package" appears in balance sheet management in the form of match-funding assets and liabilities. If a community bank strategically adds assets through an acquisition or an outright leverage, thought must be given to balancing the altered interest rate risk. Tools such as Vining Sparks' Performance Architect can quantify the new dynamics of the balance sheet, including the impact on capital, margins and earnings.

Fourth-quarter rally

The third quarter of the calendar year for broker-dealers is often a period of low volume. Some of it has to do with portfolio managers not taking time to identify beneficial portfolio opportunities until the figurative two-minute warning. This year especially, there are plenty of good reasons to be distracted. The bad news is that there are a lot of community bankers who operate in a last-second mode. Late December is rarely a good time to be selling securities; it can, however, be a buyers' market. Make decisions early — 10 minutes to go in the game is still relatively early. Late fourth-quarter comebacks are hard to pull off.

Go team!

Jim Reber (jreber@icbasecurities.com) is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks.

Webinar series continues:
ICBA Securities and its exclusive broker-dealer Vining Sparks are hosting three webinars covering a range of topics in September, October and November to conclude its 2020 Community Banking Matters series. One free hour of CPE for each event is offered. To register visit viningsparks.com or contact your Vining Sparks sales rep.

Identity Fraud Risk

ByTina Giorgio

Catching synthetic identity fraudsters remains difficult, and the fallout of not detecting it is substantial. AI company Coalesce estimates that synthetic identities account for more than 20% of losses in a loan portfolio, and for credit, they average 4.6 times the typical loss.

The COVID-19 pandemic has given rise to a significant number of fraud-related concerns, but perhaps most disturbing is the potential for increases in synthetic identity fraud, which is estimated to cost $6 billion in annual credit losses in the United States.

As I mentioned back in November, detecting synthetic identity fraud can be tricky precisely because it stems from legitimate personally identifiable information (PII) and normal credit-building patterns. In many cases, synthetic identity fraud accounts check all of the boxes as they move through normal due diligence. In fact, pre-pandemic, half of the fraudsters who were using synthetic IDs applied in-person for credit — passing standard Know Your Customer (KYC) tests.

Catching synthetic identity fraudsters remains difficult, and the fallout of not detecting it is substantial. AI company Coalesce estimates that synthetic identities account for more than 20% of losses in a loan portfolio, and for credit, they average 4.6 times the typical loss.

With that in mind, the Federal Reserve Banks released its whitepaper, "Mitigating Synthetic Identity Fraud in the U.S. Payment System," last month with strategies to decrease risks around this growing problem. The following seven tips offer insights from the report into ways to better safeguard against synthetic identity fraud.

1. **Think beyond today's risk management solutions.** A study from ID Analytics estimates traditional fraud models were ineffective at catching 85 to 95% of likely synthetic identities, meaning the bank will have to institute additional measures to mitigate its risk.

2. **Check multiple data sources.** If you assume all PII has been compromised, how do you validate the person is who he or she says? Use additional data sources unrelated to name, social security number (SSN), date of birth, and address to confirm the applicant's identity.

3. **Employ a multilayered approach.** AI and machine learning can support a more automated analysis, but these solutions only go so far. Educated bank staff must intervene on more complex issues, like false positives. Having both engaged bolsters a bank's line of defense.

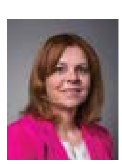
4. **Institute or reinforce link analysis.** Link analysis was highlighted in the whitepaper. It includes reviewing various banking channels (checking accounts, lending accounts, other financial activity) to monitor for anomalies in everything from IP address to reused SSNs. Because synthetic identity fraudsters generally open multiple accounts at the same organization, this cross-departmental assessment can be used to catch fraud before it happens.

5. **Report the loss as a fraud.** I've said this before, but it bears repeating; report synthetic identity cases as a fraud. If it is assigned as a credit loss alone, credit bureaus can remove the credit delinquency from the account after seven years, giving the fraudster a window to do it all over again. Noting the loss as a fraud also flags it for other areas of the bank.

6. **Share information.** When you see something, say something. Continue working with industry groups and law enforcement to shine a light on the trends you're noticing in your institution. Work with your regulator to iron out any uncertainties around what data you can and should share.

7. **Enroll in the electronic consent-based SSN verification (eCBSV) service when it becomes available to you.** While this is not a catch-all, eCBSV will go a long way toward helping community banks thwart false identities, providing real-time validation of SSNs. If you haven't already applied for this service, watch for the next open enrollment period.

All in all, synthetic identity fraud continues to create a significant risk for community banks. But by employing a thoughtful, strategic approach, you can minimize your exposure and shrink the overall threat.



Tina Giorgio is ICBA Bancard president and CEO.

Data Analytics: Buy Versus Build

By Mary Gill Hundley, Chief Administrative and Risk Officer, KlariVis

It is the age-old question: Buy vs. Build? How do you know which is the best strategy for your institution? As a former banker who has made the recent transition to a SaaS company executive, my answer today differs significantly from the one I would have provided five years ago. Today, I have a deeper understanding of the benefits, challenges, roadblocks and costs associated with building a data analytics solution. If data analytics is on your strategic roadmap, perhaps the insights shared here will aid you in making this significant decision for your institution.

Frustration with accessing bank data is not a new concept. For years, bankers have realized data is a significant untapped asset, but many institutions have not yet attempted to solve their data challenges.

Interest in data analytics continues to intensify and has only been amplified in the era of COVID-19, as it has become increasingly apparent that outdated methods of distributing reports and information do not work well in a remote work environment. Bankers seeking ease of access and speed of delivery are looking for innovative ways to procure information needed to make timely decisions or gain a competitive edge.

How will you solve the data conundrum? Some bank leaders are looking to their IT department to resolve data challenges. Alternatively, other executives are seeking out a fintech to partner for a solution. What is right for one institution may not fit with another's strategy and business philosophy. A good place to start this decision journey is with a business case analysis that considers:

- What does the bank want to achieve?
- What does the bank board want to solve?
- Who are the users of the information?
- Who is currently creating reports, charts, and graphs in the institution today, and is this a siloed activity?
- What is the timeline for the project?
- How much will this initiative cost?
- How unique are the bank's needs and issues to solve?

Assessing how much time is spent on meaningful report creation and whether that task is the best use of a specific employee's time is critical to the evaluation. In many cases, highly compensated individuals spend many hours creating reports and dashboards, leaving them with little time for analyzing and acting upon information derived from the reports.

In institutions where reporting is accomplished in a siloed fashion within multiple departments and business units, seeking a single source of truth is often a primary motivator for expanding data capabilities.

> Assessing how much time is spent on meaningful report creation and whether that task is the best use of a specific employee's time is critical to the evaluation.

Pros for buying a software tool:

- Prebuilt tools typically promote a faster time to deployment, yielding quicker readiness for use in the bank's data strategy.
- Vendors employ specialized technical resources that eliminate internal turnover risk prevalent with "in house" development.
- Buying frees up resources so the internal team can focus on the data use strategy and analyzing data once the tool is implemented. It frees up the "gray space."
- There is a lower upfront cost, which is typically less than the cost to hire developers and divert internal managements focus towards development.
- There is minimal ongoing system administration with a purchased solution that is delivered in the cloud.
- Vendors leverage expertise from the feedback of institutions of all sizes and complexities, which will benefit all clients.
- Utilization of cloud technology used by many providers is faster, cheaper and secure.
- The vendor is responsible for solving any integration issues.
- Purchased software is updated regularly with ongoing maintenance, functionality and new features to remain competitive.
- Purchased solutions typically promote accessibility throughout the institution, allowing for a broad user base and adoption.

Cons for Buying:

- Selection criteria are critical, and it can be time-consuming to find the right vendor to meet your specific needs. For example, many banks are seeking an out-of-the-box solution that does not depend on internal bank resources to maintain or enhance.
- You have limited customization options.
- You have potential for integration issues if the right vendor is not selected.
- Subscriptions and licenses are often time-based, so costs may grow over time.
- Subscriptions and licenses are sometimes user-based, so adoption across the institution becomes more costly and could lessen the overall effectiveness of the solution.

Pros for Building:

- You have the ability to customize and prioritize development efforts based on the bank's specific needs.
- Data security may be controlled, depending on the tools used for the build and data warehousing.
- You can modify the budget more readily.

Cons for Building:

- Software development is not your core business.
- There are significant upfront and ongoing costs to develop. Institutions often underestimate the time and resources needed for development, which results in a longer time to deployment. A purchased tool may have what appears to be a large price tag, but building a tool incurs costs that are often overlooked, such as the cost of internal personnel subject matter experts to guide development efforts, ongoing maintenance costs and the unknowns associated with software development.
- The project requires business intelligence and software development expertise, neither of which are prevalent in the banking industry.
- There is turnover risk associated with subject matter experts, data analysts or developers. Institutional knowledge related to the "in-house" built system may leave the bank with the employee.
- Projects of this magnitude require continuous engagement from management subject matter experts, as this is not solely a technology team project. Bankers are needed to provide the vision and banking content for the product, and success is contingent on "in-house" commitment. This is one of the most expensive undertakings because it diverts management focus from other responsibilities to the development project.
- There is a negative impact on company productivity. Participant resources will be diverted from core responsibilities to develop the tool.
- "In-house" created tools tend to continue to operate in data silos where the tool is accessible only to the data team.
- Ongoing development and releases may be difficult for an internal team to manage to meet the evolving needs of the bank. Teams are often challenged with limited time and resources, along with changing business priorities and staff turnover.

The question that remains is, do you have the bandwidth and talent at your bank to take on a build project? These projects typically take longer than expected, experience budget overruns, and often do not result in the desired business result. However, you need to make the choice that is correct for your institution.

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By Bankers, For Bankers

Mary "Gill" Hundley, CRCM, CRVPM
Gill Hundley is the chief administrative and risk officer of Roanoke, Virginia-based KlariVis, a data analytics platform designed by bankers for bankers. KlariVis provides a clear vision by automatically integrating, aggregating and analyzing transformative data in an understandable format. Hundley leads the administrative and risk functions at KlariVis.

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COVID-19: The Time to Discuss Your Strategic Direction

By Mark Mangano

In times of substantial economic disruption, the natural tendency is to address short-term concerns and put off consideration of longer-term strategy until the disruption passes, and the picture becomes more apparent. Delaying consideration of strategic direction in this fashion forgoes timely consideration of strategic opportunities and evaluation of risks presented by the disruption. Examining your strategic direction is one of the most important measures you can take in times of change and uncertainty.

The COVID-19 pandemic has disrupted the business plans of every bank, business, and nonprofit. The impacts range from overwhelmingly negative to unexpected windfalls. Regardless of the short-term impact, the COVID-19 pandemic will foster long-term changes in the economic landscape.

Common response

Many boards and senior managers resist planning in times of great uncertainty. This is an understandable response. The perceived challenge of planning in such an environment is much greater. Compared to planning in a normal environment, planning presents an increased number of variables to consider and greater uncertainty around each variable.

It is not uncommon for boards and management teams to freeze and hope that prior plans and strategies will see them through. Staying the course may be the best response. But you should do so intentionally. Hope is not a strategy. There is one certainty about the COVID-19 crisis: The world has changed. Failure to reexamine your strategy leaves the future of your organization to chance.

In a situation as chaotic as a global pandemic, deciding where to start the planning process is often the most challenging question. If we begin with why we exist, the process becomes much less daunting.

Proactive response

There is a practical and effective way to approach planning in times of uncertainty. First, embrace planning as an opportunity to get ahead of what comes next. Second, focus

on what may be changing for your stakeholders. Third, create narratives around how you might serve those changing needs. Fourth, monitor which of your narratives becomes increasingly supported by the real-world trends and events.

Embrace planning

Meaningful and productive planning can be achieved even amid significant change. Even when your assumptions appear to be in motion, you possess the ability to narrow the range of uncertain variables, assess the quality of our existing priorities, identify key measures that will require strategic and operational changes, and discuss potential opportunities.

Planning at its core addresses why your organization exists, where you are now, where you want to go, and how you plan to get there. If you begin with the fundamental question of why the organization exists, the process becomes apparent even in uncertain times. For most organizations, the reason for existence is to serve stakeholders: customers, shareholders, funders, and employees.

What is changing for your stakeholders?

It is easier to assess the status of our stakeholders than it is, to begin with, internal performance. By focusing on their needs, we can begin to determine what is likely to change for them and what is likely to stay the same. Their needs will drive our strategic direction.

Create narratives

In the planning process, you will need to accept that you must make a range of assumptions regarding how the economy and stakeholder behavior will change. Usually, you have long-term trends to guide your discussions. From those discussions, you develop a story or narrative of what you believe will occur. Strategic responses are built around that narrative. In times of great change, you may be required to develop alternative narratives that take into account significantly different potential outcomes.

Monitor which narratives most resemble emerging reality

Effective planning is not an event. It is a process. Once you have committed your organization to adapt to your selected narratives, carefully monitor how emerging facts compare to the key assumptions in each narrative. As time passes, likely, some narratives deviate sufficiently from reality that they can be eliminated. Over time you gain confidence in other narratives.

It is impossible to predict the future with perfect accuracy. But it is possible to anticipate potential risks and opportunities. Planning in times of uncertainty is not about getting it completely right. It is about considering the possible outcomes and being able to more quickly respond to risks and opportunities when they arise.

Times of significant change unquestionably present risks that require caution. But such times always create current opportunities for those prepared to recognize them. Planning can help you be ahead of what comes next.

Mark Mangano is counsel with Jackson Kelly PLLC. Mark is an attorney focusing on strategic planning, corporate governance, and banking matters. He has 26 years of experience as the CEO and owner of a community bank. He can be reached at mark.mangano@jacksonkelly.com. 304-284-4104

Simplifying Business Impact Analysis

By Leticia Saiid

To have an effective Business Continuity Plan (BCP), recovery plans must be based on a Business Impact Analysis (BIA). According to the FFIEC's Business Continuity Management booklet, BIA is "the process of identifying the potential impact of disruptive events to an entity's functions and processes." There are a lot of elements to capital BIA, but for the purpose of this article, we are going to focus on the conceptual lowercase business impact analysis. This analysis will help you make informed decisions about when certain processes can be restored and help you determine appropriate Recovery Time Objectives (RTO).

Prepare the Definitions

The first step in simplifying a BIA is to define ratings, categories, and labels of any kind. Definitions are foundational to an effective analysis process.

Criticality Levels

Criticality Levels are necessary for defining which processes require more immediate attention than others. Consider creating a set of levels such as Critical, Urgent, Important, Normal, and Nonessential. If you work for a smaller institution, you may find you need fewer level options.

The definition of each criticality level is its corresponding Maximum Tolerable Downtime (MTD). This is the amount of time your business can tolerate without the process. For Critical processes, you may only tolerate minutes, but for Nonessential processes, you might tolerate weeks.

Business Impact Categories

When considering downtime of a business process, consider the ramifications this downtime may have on your organization. The kind of impacts which concern you will determine your categories. At a minimum, you should consider the Compliance, Financial, Operational and Reputational impacts to your organization, should a process be unavailable.

For each category, provide clear definitions for each rating. For example, consider the following impact level definitions for the Compliance category:

- **Insignificant:** Negligible compliance, contractual, regulatory or legal concerns.
- **Low:** Potential for compliance, contractual, regulatory or legal issues with minor implications.
- **Medium:** Confirmed compliance, contractual, regulatory or legal issues with moderate implications.
- **High:** Major penalties and/or costs related to compliance, contractual, regulatory or legal issues.
- **Extreme:** Extreme penalties related to compliance, contractual, regulatory or legal issues (e.g., jail time for employees, closing of the institution, etc.)

Analyze Impact

Make a list of your business processes. Business processes are a combination of the people, resources, and procedures that achieve a goal, such as Accounting, Information Technology, Lending Operations, Cash Management, and Regulatory Reporting.

Review one process at a time. Gather a group of people who deeply know and understand the process and how the lack of the process could impact the institution in different ways over different periods of time. Identifying the impact level for each category at each timeframe allows you to determine the MTD for this process.

Example Analysis

Let's look at an example business impact analysis with the Mobile Deposit Capture process and the Reputational impact category. If a disruption to this process occurred, what impact would this have on the organization? Don't spend too much time thinking about why the process is unavailable. Knowing why a process is unavailable is irrelevant to how long your organization can tolerate going without it before the missing piece begins to affect the organization's mission, customer experiences, other business functions or compliance requirements.

After one hour, the institution may have a few unhappy customers, but the impact would overall be Insignificant. Even after one day, the impact might still be Low. If the process was down for three days, clients may start to notice and could be upset (Medium). After one week, the organization would likely have to do a lot of work to regain trust (High). If the process was unavailable for 60 days, the impact might be Extreme, as clients could be lost and our reputation would be damaged with the community. See the image for an example of what the ratings could look like.

Potential Impacts

Impact Category	2 Hours (Critical)	24 Hours (Urgent)	72 Hours (Important)	7 Days (Normal)	30 Days (Nonessential)
Compliance	Insignificant	Insignificant	Insignificant	Low	Medium
Financial	Insignificant	Low	Medium	High	Extreme
Operational	Insignificant	Insignificant	Medium	Medium	Medium
Reputational	Insignificant	Low	Medium	High	Extreme
Highest	Insignificant	Low	Medium	High	Extreme
Average	Insignificant	Low	Medium	High	High

When this assessment is performed for each category, the level of tolerance can be identified before a disruption becomes too detrimental for the business. That is the process's maximum tolerable downtime, and, thus, criticality level. In this example, perhaps the impact is generally low prior to three days, so this process is set as Important. This means, in the event of a widespread business disruption, other higher priority processes will be given attention before this one until the three-day mark is reached.

Override for Dependent Processes

Don't forget about the process dependencies. This could completely override the criticality level you determine through the BIA process. If there is another process with a shorter MTD which depends on this one to function, you must shorten the MTD of this process to have it ready to support the dependent one. Another option would be to reconsider the relationship between the two processes or reconsider if the other process has an accurate MTD.

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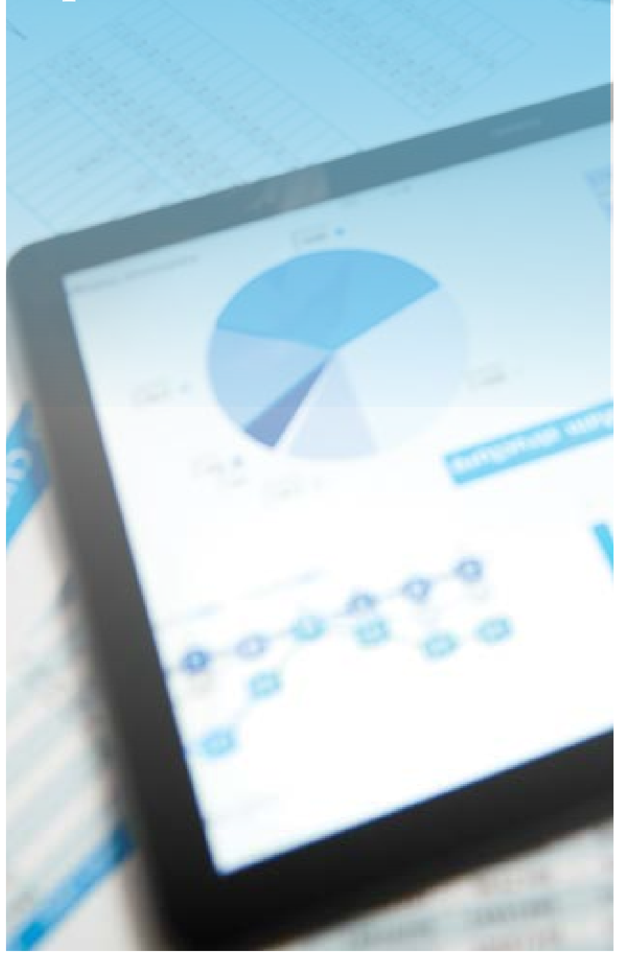

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