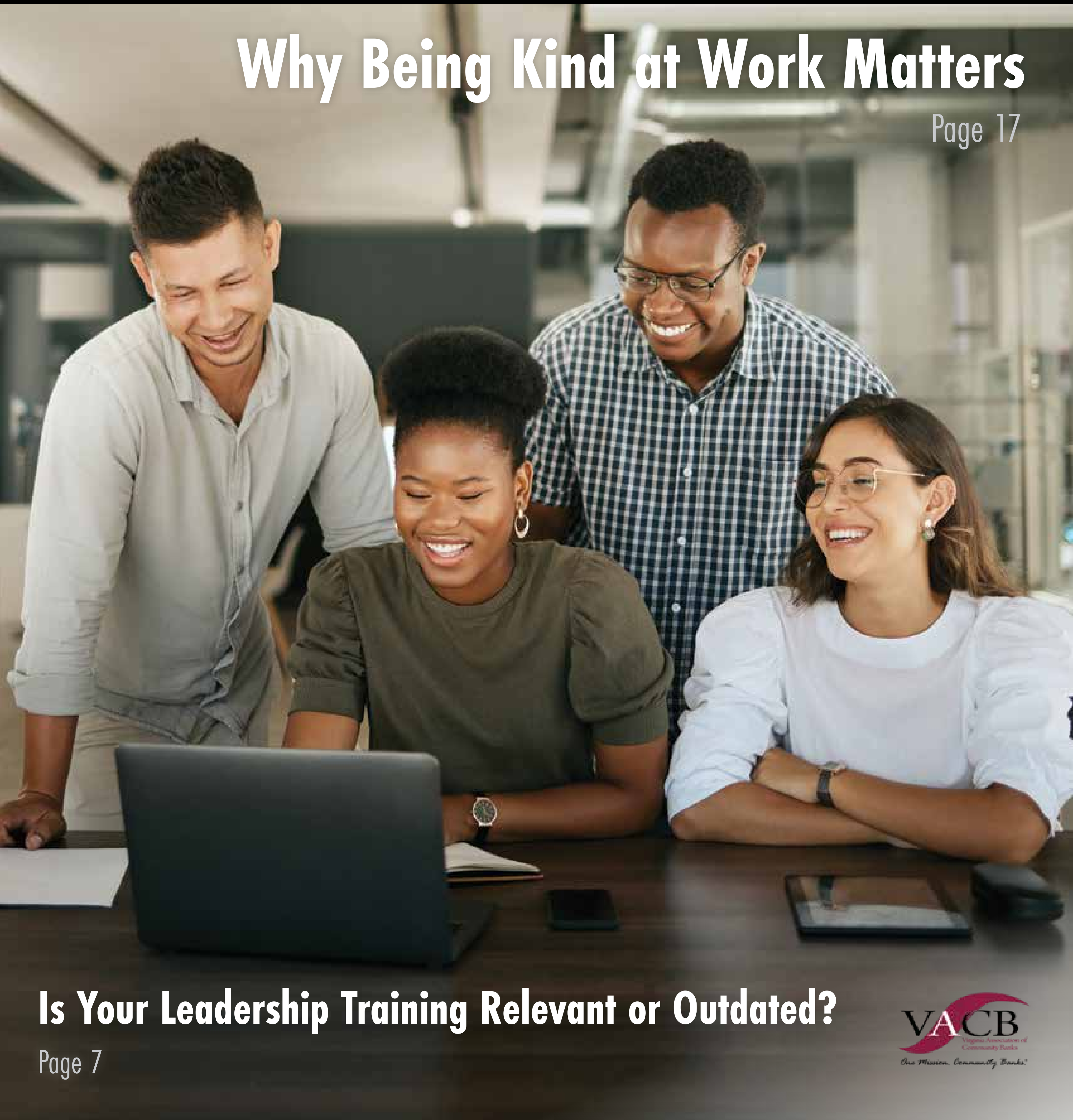
The CommunityBanker

PUB. 11 2022 ISSUE 3

OFFICIAL PUBLICATION OF THE VIRGINIA ASSOCIATION OF COMMUNITY BANKS



Why Being Kind at Work Matters

Page 17

Is Your Leadership Training Relevant or Outdated?

Page 7

VACB
Virginia Association of Community Banks
One Mission. Community Banks.

Interest Rate Risk and Investment Strategies Seminar

October 19-21, 2022 | Oklahoma City, OK

The Skirvin Hotel

The Skirvin Hotel
One Park Avenue
Oklahoma City, OK 73102
405.272.3040

WHO SHOULD ATTEND

Financial institutions' CEOs, CFOs, investment officers, board members, and those who are directly or indirectly responsible for financial management functions will benefit from this seminar. ***There is no cost for this seminar.***

ACCOMMODATIONS

A block of rooms is available at The Skirvin Hotel. Identify yourself as a Baker Seminar attendee (or group code TBG3) when calling **+1 (800) HILTONS**. The special room rate will be available until the room block is sold out.

AGENDA

Wednesday, 19th
Twin Hills
Golf 1:00 pm

Thursday, 20th
Breakfast 7:30 am
Seminar 8:30 am
Lunch 12:00 pm
Adjourn 4:00 pm
Dinner 7:00 pm

Friday, 21st
Breakfast 7:30 am
Seminar 8:30 am
Conclusion 12:00 pm

For your convenience, register for the seminar online at **GoBaker.com/oklahoma**. Call Skoshi Heron at 888.990.0010 for more information.

FEATURED SPEAKER

David Rosenberg — *President/Chief Economist & Strategist*
Rosenberg Research & Associates Inc.

Two years after the pandemic left financial institutions drowning in excess liquidity at historically low interest rates, the industry faces a new challenge... rising interest rates. The Fed has quickly pivoted from supporting the economy to fighting inflation and institutions are now facing the first rising rate environment in years. Regulators have watched with concern as loan and investment durations extended to record highs in a search for yield and will have a renewed focus on the Investment Portfolio and Interest Rate Risk Management. Portfolio managers can no longer be reactive, but must be proactive in managing their investment portfolio and balance sheet in the face of rising rates and a flattening yield curve. This seminar will examine all of these concerns and present actionable strategies to better prepare your institution for the uncertainty ahead.

Join us for an in-depth discussion of the following topics:

- **Economic and Market Update** — Review of current economic conditions and the outlook for growth, inflation, and interest rates
- **The Powell Pivot** — Update on rate hikes, tapering, and the outlook for Federal Reserve monetary policy
- **Interest Rate Risk** — How to ensure you are prepared for the heightened regulatory focus coming in the years ahead
- **Liquidity Risk Management** — Best practices for managing liquidity risk as rates rise
- **Investment Portfolio Strategies** — Adapting your strategy and finding the best relative value for rising rates and a flattening yield curve
- **MBS/CMO Market** — Balancing prepayment and extension risk in an uncertain mortgage rate environment
- **Municipal Market Update** — The latest on managing municipal credit risk and finding the best relative value

CPE SPONSORS

11 hours of Economics and Finance CPE credits will be earned for your attendance.

The BakerGroup

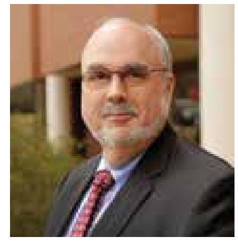
Member: FINRA and SIPC
www.GoBaker.com | 800.937.2257

Oklahoma City, OK | Austin, TX | Dallas, TX | Houston, TX
Indianapolis, IN | Long Island, NY | Salt Lake City, UT | Springfield, IL

CONTENTS

President's Message

By Steve Yeakel, CAE
VACB President and CEO



You Have Earned Your Stellar Brand – Protect and Enhance It!

Now, as the pace of change brings many new challenges to the financial services marketplace, it is critical that you continue investing time and resources into protecting your stellar brand and enhancing it wherever possible.

From the "too close to the forest to see the trees" department:

You wear your community bank brand every day, and you wear it very well. You have earned it several times over and keep growing it, often without conscious effort. You are banking the only way you want to bank: through strong personal relationships built on trust and unceasing efforts to retain that trust.

And research clearly shows that your efforts are acknowledged by the public. Over the past decade, survey results have consistently reflected your good work. In ICBA's recent filing with the CFPB "regarding Relationship Banking and Customer Service," three charts quantify the high level of success you see and sense daily in your bank. In general, customer satisfaction, satisfaction with lenders, and the fewest challenges with lenders, community banks lead the way among all banks and online lenders.

This is no surprise. Although minor, one of the few positive outcomes of the Great Recession was the recognition among almost every stakeholder that community banks did not cause the crisis. Fast forward to the pandemic crash, when community banks were the clear champions of the PPP. The aura of your performance still resonates strongly with the public and policymakers.

Now, as the pace of change brings many new challenges to the financial services marketplace, it is critical that you continue investing time and resources into protecting your stellar brand and enhancing it wherever possible. In this regard, I would offer two suggestions for your consideration.

First, **find partners to keep you focused on doing what you do best.** While plenty of fintech companies compete with community banks, there are more and more quality fintechs that want to work with community banks, allowing you to spend more time building valuable relationships. Let VACB help you find those quality partners. In addition, VACB provides targeted educational opportunities that bring timely information to you and your staff.

Second, **don't let your brand be covered over or diluted.** You are much more than a bank; you are a community bank. VACB represents your uniquely valuable brand before policymakers, the media, and the public. Your continuing engagement with us, and your increasing engagement, will provide additional value to your brand.

I know you will keep doing your good work in your communities. It's an honor to be able to provide a little wind in your sails, assisting you in your invaluable efforts.

"The implementation process was very easy and we've already seen significant time savings within a week."

-VP & CFO, Bank of Marion

Paymerang provides
banks with a white labeled payment
and invoice automation solution, saving their
clients thousands of hours, reducing payment
fraud risk, and increasing efficiency.

To learn more about AP Automation, scan or visit www.paymerang.com

Chairman's Message

By Dennis Dysart, VACB Chairman
First Bank, Strasburg

To Convention and Beyond!

On October 2, community bankers from around the Commonwealth will gather at the beautiful Williamsburg Lodge and Conference Center in Colonial Williamsburg for the **45th Annual Convention and Trade Show.** I truly hope you join us for this year's convention. It's a great time to reconnect with each other, hear presentations from industry thought leaders, as well as engage with our associate members.

I appreciate the support and input we have received from our members over the past year. It began with a member outreach telephone initiative last fall, followed by six in-person regional meetings from March through June this year. This input, combined with a robust board survey, has been invaluable as your VACB Executive Committee launched the strategic planning process. A special thanks to Mary Beth Sullivan, Managing Director of Capitol Performance Group (CPG), who led our board retreat on August 19. In addition to revisiting our current mission statement and evaluating near-term operating priorities to drive member value, we also challenged ourselves to assess the long-term impacts of industry consolidation in the Commonwealth.

What is the top priority identified by our members and board? Quite simply ... undiluted advocacy for community banks. Our strategic planning work will continue over the coming weeks and months as the board navigates both challenges and opportunities. Thank you for your guidance thus far in the process.

In addition to observing the contributions of our members over the past 12 months, I certainly want to recognize the work of your board, especially the Executive Committee, including Chair-Elect, Jay Stafford; Vice-Chair, Tara Harrison; ICBA Delegate Mark Hanna; President & CEO Steve Yeakel; and immediate past Chairman, Mike Thomas. This team has been laser-focused on key issues of the association throughout the year.

I look forward to working with Jay Stafford and the entire Executive Committee over the next twelve months. Jay will be an exceptional leader as your incoming Chair. We have known one another for years and have a strong working relationship. He is thoughtful, engaging and collaborative. Jay is inquisitive, drives outcomes, and is the perfect leader to put our strategic plan into action.

In closing, serving as your VACB chair over the past year has been extremely rewarding. In addition to learning so much more about the VACB, ICBA, and critical issues facing community banks, I was able to visit and connect with many Virginia bankers with whom I had not previously met. Thank you for your time, encouragement, support, and counsel. I challenge each of you to become more engaged with the association. Not only will it benefit the association and industry, but you and your bank will benefit directly.

I look forward to seeing each of you in Williamsburg for the convention.

Dennis

Business Continuity Plan: The Ultimate Playbook

By Jonathan Ramirez, CoNetrix

In the course of reviewing a financial institution's information security program, it comes to the point of reviewing the organization's business continuity plan. In doing so, it is not uncommon to hear, "Why do we need a business continuity plan?" or "How is this plan going to help me in a cyber-attack/incident?" With these questions, it is safe to assume that the organizations are completing their BCP to check it off a list rather than for their own benefit.

What is a BCP?

A business continuity plan is a comprehensive written plan that provides detailed strategies to address recovery from disruptions in business essential processes. A business continuity plan is typically based on risk assessments, business process prioritization, maximum allowable downtime analysis, and other recovery timeframes.

This means that the business continuity plan is designed to consider aspects of preparing for, mitigating against, and responding to reasonable interruptions to essential business processes. Consider it as a playbook for your favorite sports team. It will provide details on each person's role and responsibilities for recovering from all kinds of business interruptions such as power outages, biological pandemics, internet connectivity disruptions, weather incidents such as floods and tornadoes, and last but certainly not least, breaches and cyber security events.

Testing your BCP

Many institutions go through the effort of creating a business continuity plan and forget possibly the most vital element of all: TESTING IT. Earlier I compared the BCP to a playbook for a sports team. It is similar in that having a playbook will not win a game. You must practice the plays in the playbook to win. For example, an institution conducted a backup on a server a few weeks ago and then tried to do an emergency restore. But, it now realizes that within the time of creating the backup and the restoration attempt, the entire backup file has been corrupted with no way of restoring it to working condition. However, if the backups had been maintained, the server could have been recovered.

This is just one example of tests covered by the BCP, and several testing methods can be performed from simple checklists and mock disaster implementations. Below are a few examples of testing methods:

- **Walk-Through Drill/Simulation Test –** Team members, get together and walk through various scenarios and apply the business continuity plan to each one. This testing should assess the functionality of the plan, team member interactions, and decision making, mobilization, and coordination.

- **Tabletop Exercise/Structured Walk-Through Test –** This test is for familiarizing team members with the business continuity plan and updating outdated information. Team members will discuss the plan and suggest modifications or provide clarification for revisions.

- **Functional Drill/Parallel Test –** In this test, a mock disaster is declared, and team members are tasked with carrying out the business continuity plan. Two types of functional drills can be used, planned and unplanned.

  - **Planned Functional Drill –** This test is planned, scripted, and organized ahead of time.

  - **Unplanned Functional Drill –** This test results from an actual business interruption. Many small-scale business interruptions are not documented as BCP tests. They are considered to be the most effective. Small-scale business interruptions can include temporary power outages, server failures, and key employees calling in sick. These are considered effective because they are not testing but actual implementations of the business continuity plan.

Always remember to document the results of each test and use the lessons learned to improve the business continuity plan. The business continuity plan is very important in a financial institution's preparedness program. Thus, an organization must create a cultural paradigm that the BCP is a vital security measure to be embraced and not just another mark on a check box.

Jonathan Ramirez has three years of professional experience in Information Technology. He graduated from Texas Tech University, receiving a B.B.A. in Information Technology with concentrations in App Development and Cyber Security. He now configures and maintains the security appliances in our audits, performs vulnerability reporting, social engineering phone calls, and collects data during CoNetrix Security audit projects.

Is Your Leadership Training Relevant or Outdated?

By Dr. Melissa J. Furman, MS, DBA

Organizational leaders have been navigating uncertain times for over a year, and many changes have occurred at an accelerated pace, including changes within the workplace and workforce. As a result, leaders must evaluate their abilities, preferences, and perspectives to continue successfully leading their organizations through this new era of uncertainty and constant flux.

Leadership development programs can play a pivotal role in preparing leaders to navigate the challenges of today and tomorrow. However, is your leadership program relevant to the need to lead for today and tomorrow? If the format, delivery, and content of your leadership programs have not been "refreshed" within the last two years, the program may not be relevant.

Think back to when your leadership program was initially created. What was the purpose? What were the needs of the community?

Now fast-forward to today and ask yourself: Is the purpose still relevant and meaningful? Are the needs of the bank (employees and customers) the same? Are we preparing leaders to be able to lead the challenges being presented today *and* in the future? Are we delivering content in a way that appeals to all generations? And is the format relevant to how younger professionals learn?

Regarding content, if you're following the trends mentioned in the popular leadership books, such as servant leadership, authentic leadership, etc., you may need a refresh. The pace of change is faster than the time needed for researchers to collect data and publish their strategies in a book or even record a podcast, so relying on current periodical publications from reliable sources may be your best resource. Having compiled the latest literature, here are a few key content components that should be included in leadership programs to best prepare your community leaders for today and tomorrow.

1. **Self-Awareness –** Leaders must know their intentions, biases, and blind spots. This can be done by utilizing reliable assessment tools with follow-up reflection exercises.
2. **Emotional intelligence –** Current research has identified high emotional intelligence as one of the top qualities needed for leadership success. Leaders need to be able to (1) recognize their own emotions, (2) recognize the emotions of others, and (3) utilize emotions constructively to navigate challenges. Attributes such as emotional expression, resiliency, and empathy are critical for future success.
3. **Diversity Appreciation & Leverage –** The workplace is more diverse than ever, and leaders need to recognize the importance of diversity and identify ways to leverage diversity for organizational success. And remember, diversity includes many areas such as age, gender, ethnicity, cultural background, political views, and disabilities, to name a few.
4. **Enhanced Communication Skills –** Due to the diversity present in the workplace, leaders need to enhance their communication skills as it relates to styles and mediums and enhance their ability to communicate with transparency and compassion.
5. **Inspire Innovation –** Innovation is a must to survive in this fast-paced, ever-changing world. The younger generations expect innovation, and leaders need to be able to inspire innovation and create cultures that embrace and support innovative thinking.
6. **Advanced Decision-Making Skills –** Leaders are increasingly challenged to make decisions faster and with less information. They are encouraged not to rely on "gut" because, after all, "gut" is based on previous experience, and previous experience may not be relevant to today's environments. Leaders need to identify ways better to utilize data in combination with "gut" to make better-informed decisions.

And the list of attributes continues to grow.

To quote a famous cliché, "The only thing constant is change," and leadership programs are no exception. The curriculum should be fluid, dynamic, relevant, and constantly changing if you want to best prepare current and future leaders.

Dr. Furman is a professor and "practicing academic" at the James M. Hull College of Business at Augusta University. She is also the founder and owner of Career Potential, LLC, and provides consulting, coaching, and training. She utilizes her research and subject-matter expertise related to generational diversity, unconscious bias, career and leadership development, and emotional intelligence to have a positive, practical impact on organizations and individuals alike. You can reach her by email at mfurman@unlockcareerpotential.com or on her website at www.unlockcareerpotential.com.

Dr. Furman will be a key presenter at VACB's upcoming 45th Annual Convention and Trade Show. Hear her "The Future Landscape of Work & Talent" session on Tuesday, October 4, at our second Business Session.

The Jungle is Claiming Virginians as Fraudsters Prey on the Young and Elderly

By Mike Burke, Senior Robbery & Crisis Management Consultant

The fraud forest has transformed into a jungle, with predators lurking since the start of the pandemic, and these predators often target what they perceive as the weakest in the pack – the young and the elderly.

In the Federal Trade Commission Consumer Sentinel Network Report for 2021, younger people (age 20 – 29) reported losing money more often than older people (age 70 – 79) when exposed to fraud.

Virginians are not immune to this threat.

The same FTC report ranked Virginia 14th in the nation for fraud, with 93,763 total fraud and other reports per 100,000 Virginians – and a total fraud loss of $112.9 million. Community bankers are often the first line of defense preventing their customers from becoming prey in this scam safari.

Most safaris consist of a client, ranger and tracker. Here, the client is the customer. The ranger is you, the community banker with vast knowledge of the bush and the fraudsters that hunt within it. And the trackers are the front-line staff who engage your customers daily and, as trackers, are equipped with the weapons required to prevent harm to those customers.

But how are these safeguards achieved? The answer is **education!**

When I say education, I don't mean "telling." I mean "training."

Telling is often one-way communication we assume has reached the right audience with the right message. *Training* will change behavior.

Let's first talk about your trackers, your front-line staff. When communicating to your staff about fraud or a scam affecting your customers or presently impacting them, are you telling or training? Telling is an email or notice hung on a bulletin board in the breakroom letting them know a customer has fallen victim to a romance scam. The tagline at the end of this communication is probably "be on the lookout for this scam." But on the lookout for what?

Instead, you can train your trackers to identify the red flags of, say, a romance scam and then ask questions about suspicious transactions. For example, "Did someone you have never met in person ask you to send them money?" "Have you been told to provide a false reason for withdrawing or sending funds via a wire transfer?" "Have you been instructed to withdraw cash and convert it to cryptocurrency for payment of any type?"

Like many other scams, romance scams are successful because the fraudster can get the victim under the ether. The ether is a state of mind where the victim no longer thinks logically, instead reacting on emotion. Having pamphlets/brochures about these scams available in the lobby is a good start, but that, too, is telling.

Think about starting the training process with a town hall meeting. Partner with a local chamber of commerce and hold a one-hour session on identifying and preventing fraud and scams.

Training in this area does not have to, and shouldn't, be a one-time event. As humans, we forget – even with information as crucial as this. Let your customers know that you'll continue to hold the training sessions, and use your social media presence to communicate about fraud and scams and how to avoid falling prey.

The jungle's terrain is ever-changing. Be the ranger that helps lead your customers to a scam-free sanctuary. Being your customers' trusted partner is key! If they trust you, they will listen to you.

__SHAZAM__ pioneered the PIN-debit point-of-sale transaction, still used worldwide today. We're the only nationwide independent, member-owned debit network, processor and core provider supporting community banks and credit unions. Since we don't answer to shareholders, we can reinvest profits in technologies our clients need as they serve the next generation of consumers. SHAZAM ensures our clients have the products and services they demand and expect in a cost-effective way. Founded in 1976 and headquartered in Iowa, we're a leader in payments and financial technology, with a simple mission: Strengthening community financial institutions. Visit us today at shazam.net.

VACB/ICBA 2022 NextGen Scholarship Winner: **Mimi Hailegiorgis**

Mimi Hailegiorgis of MainStreet Bank in Fairfax was awarded the scholarship in late August. Ms. Hailegiorgis has been in banking since 1998 and has worked with MainStreet Bank since 2015. In her current role, she is Vice President, Retail Banking.

VACB has recognized an outstanding future leader in community banking with this year's VACB/ICBA NextGen Scholarship.

Mimi Hailegiorgis of MainStreet Bank in Fairfax was awarded the scholarship in late August. Ms. Hailegiorgis has been in banking since 1998 and has worked with MainStreet Bank since 2015. In her current role, she is Vice President, Retail Banking.

The scholarship was made available for VACB to award by the Independent Community Bankers of America (ICBA) for its LEAD FWD Summit in Fort Worth, Texas, September 12-13. The scholarship covered program registration fees and included a large stipend to help cover airfare and lodging during the summit. Mimi was selected to receive the scholarship from a diverse group of community bankers in Virginia.

Look for more information when Mimi shares her experience at the LEAD FWD summit in a future VACB e-newsletter.

About the LEAD FWD Summit
Each year, ICBA's LEAD FWD Summit addresses the hottest banking topics and gives emerging community bank leaders the perfect mix of industry insights, leader development and technical banking knowledge.

Thank You, Convention Sponsors!

As of September 6, 2022

ICBA
Independent Community Bankers of America®

SHAZAM®

FHLBank® Atlanta
A Federal Home Loan Bank

ICBA®
Bancard & TCM Bank
Securities | Reinsurance

Travelers

troutman pepper

Williams Mullen
finding yes®

KlariVis®
By Bankers, For Bankers

yhb
CPAs & Consultants

ProcessMaker

Source4™
Integrated Business & Marketing Solutions

ACBB
Atlantic Community Bankers Bank

Community Bankers' Bank

Spotts Fain
Lawyers with your business in mind®

PCBB

BrownEdwards
certified public accountants

How to Enhance Your Bank's Defenses with a Holistic Cybersecurity Approach

By Sean Martin, Director of Product Strategy, CSI

It's no secret that financial institutions remain attractive targets for cybercriminals due to the amount of sensitive data they hold. Cyber threats and attack vectors are ever-changing, especially due to the current geopolitical climate. As a result, banks should embrace a holistic cybersecurity approach to strengthen their defenses against these evolving threats.

While the prevalence of cyberattacks has led many consumers to become desensitized to the potential risks, your bank cannot afford to become numb to the looming operational and reputational risk. According to IBM's 2021 Cost of a Data Breach Report, the average cost of a breach in the financial services industry was nearly $6 million.

Here's the unfortunate truth: Your bank cannot rely on a single solution to protect against every attack. But a holistic strategy that includes layers of defenses offers the best protection against cybersecurity threats for your entire IT environment.

Five Components of a Holistic Cybersecurity Approach

The more security layers you have, the more difficult it becomes for cybercriminals to successfully infiltrate your systems. The following cyber hygiene tips aren't exhaustive, but they do demonstrate how to mitigate cybersecurity risk by deploying overlapping layers of defenses.

1. **Educate Your Employees**
   While technology can stop a breach once detected, preventing a breach altogether with effective cybersecurity training will always be a more effective strategy. Your employees are on the frontlines of this fight to prevent attacks, and you should prioritize training for identifying and responding to the latest social engineering tactics.

   Educate employees on the evolving threats and ensure they know steps to take if they encounter a suspicious email, message or person. Consider providing cybersecurity training to your customers to further mitigate cybersecurity risk.

2. **Update Your Security Policies**
   As employees work remotely and institutions adopt cloud-based technology, systems operate and interact with increasing complexity. Because of this, security policies don't always align with new technology.

   Reviewing and ensuring internal compliance with necessary security policies will strengthen your cybersecurity posture. For example, your bank may have proper policies in place, but these policies should be reviewed after implementing new technology, such as a migration to a cloud environment.

   Additionally, ensure your software is up to date and expedite the installation of patches to decrease the risk of exploitation. If vulnerabilities are publicly known, hackers will try to take advantage before patches are implemented.

3. **Ensure Complete Visibility with Cybersecurity Monitoring**
   In today's cybersecurity landscape, your bank must avoid any blind spots in your monitoring. You need a holistic view of your environment, or you could miss security incidents

Continued on page 12

Continued from page 11

that may alert you to meaningful suspicious activity. Technology like anti-virus tools provides a basic level of monitoring but doesn't offer the same protections as advanced solutions.

Endpoints often have fewer safeguards than servers or other larger equipment, making them a popular target for cybercriminals. Endpoint detection and response (EDR) monitors specific endpoints for anomalies and blocks the spread of malware. Security and Event Management as a Service (SIEMaaS) is another powerful solution that collects and holistically reviews logs from devices throughout your technology environment, such as firewalls, anti-virus solutions and endpoints.

With a holistic view, you can monitor and resolve incidents occurring within your network. Regulators are even beginning to implement requirements associated with visibility to ensure comprehensive monitoring of the entire network.

4. **Limit Privileges and Segment Access**
   In addition to comprehensive monitoring, limit the number of employees with access to sensitive data by appropriately assigning and monitoring security rights and privileges. Institutions should review existing privilege controls for all users and ensure the level of access is appropriate.

   Allowing employees to access only the data and systems necessary to execute their day-to-day tasks will limit the actions cyber criminals can take if they gain access to the system. Segmenting access and restricting scope help mitigate the effects of malware should an attack occur.

5. **Require Strong Passwords and Multi-Factor Authentication**
   Your bank should implement strong password requirements to make it more difficult for cybercriminals to access user accounts. According to a recent report, an 18-character password using lowercase letters would take two million years to crack. Meanwhile, using the right technology, a seven-character complex password could be cracked in nearly 30 seconds. This disparity proves the importance of longer passwords or even passphrases to enhance account security.

   In addition to hardening passwords, implement multi-factor authentication (MFA) to verify a user's identity and prevent unauthorized account access. With MFA, a user must provide a third piece of information to access their account in addition to their username and password. Additionally, MFA for privileged account access within an institution's environment is a regulatory and cyber insurance requirement.

Boost Your Cyber Defenses

The more layers of security your bank embraces to prevent, detect and remediate threats, the lower the likelihood a cyberattack will devastate your operations or reputation. To learn more about current threats in the financial services landscape and strategies to boost your bank's defenses, go to www.csiweb.com.

Sean Martin is director of Product Strategy, CSI Business Solutions Group for Managed Services. He has worked to establish cybersecurity programs for financial institutions for over 15 years. Previously, Sean has served as Network and Security Operations Manager, Product Manager, and various engineering roles since 2001. In his role, Sean identifies and implements solutions designed to maximize security and profitability for financial institutions. Sean regularly speaks on various financial technology issues, ranging from managed services to IT security best practices.

Will the Federal Reserve Sell MBS?

By Andrea F. Pringle, Financial Strategist, The Baker Group

This question is likely to garner different responses, depending on whom you ask, and a plethora of caveats. It is a tough call for the Fed because stifling housing-related inflation without punishing everyday homeowners is a tricky task. For investors, this question matters a lot because the Fed's cessation from active Mortgage-Backed Securities (MBS) purchases eliminated demand from the largest buyer in the market and had a punitive impact on MBS valuations. If the Fed starts actively selling into the market, that could exacerbate things even further.

Why Sell?

There is a solid case to be made for selling MBS because the Fed has repeatedly conveyed its desire to hold a portfolio of predominantly Treasury securities. It has already stopped active MBS purchases as part of Quantitative Easing (QE) and is allowing the amount of MBS that naturally runs off its portfolio through principal pay downs to increase over time. Unfortunately, this may not be enough to get to a Treasury-only portfolio.

With mortgage rates nearly double the historic lows set over the past couple of years, virtually all existing mortgages have lower rates than those available today. As a result, refinance – and even purchase activity – has slowed dramatically. As high mortgage rates disincentivize people from refinancing and moving, mortgage balances are being paid down more slowly, and the resulting runoff of the Fed's MBS balance sheet is happening more slowly as well. In fact, the maximum runoff caps set by the Fed to facilitate a gradual removal of its footprint likely will not even be reached through natural paydowns.

The Fed announced plans to gradually and predictably reduce its securities holdings by setting caps on the amount of MBS and Treasury paydowns reinvested in those securities. This process began in mid-June with an initial monthly cap of $17.5bn MBS for the first three months, which shifts to $35bn/month in September. However, with prepayments slowing in response to higher primary mortgage rates, the Fed's playdowns are already running below the planned maximum $35bn cap. In other words, organic MBS portfolio reduction will be much slower than the Fed wants.

To make matters worse, the Fed's Treasury holdings do not have this problem. The cap for Treasury securities was initially set at $30bn/month and shifted to $60bn/month in September. Because Treasury securities are not plagued by slowing prepayment activity like MBS, principal pay downs of Treasuries will be able to hit the full $60bn/month cap much more efficiently. This dynamic will cause the share of MBS in the Fed's portfolio to increase relative to Treasuries rather than decrease.

Additionally, a large part of the Fed's targeted Consumer Price Index (CPI) measure considers rental and housing costs. In order to rein in inflation, shelter prices as a component of CPI need to come down. Over the long term, shelter prices in CPI tend to follow trends in home prices, which have yet to slow materially despite higher mortgage rates. This suggests shelter prices could remain strong until at least mid-2023. Thus far, the Fed has only attempted to control this by raising interest rates, but pervasively high shelter costs could put pressure on the Fed to take further action to bring down CPI.

Continued on page 14

Continued from page 13

Why Not?

While the case for MBS sales may seem strong on the surface, the Fed has a delicate tightrope to walk to avoid overly burdening homebuyers/homeowners and significantly distressing the broader housing market. It takes time for rate hikes to actually cool inflation, so selling MBS may not do much to directly impact housing inflation in the near term. We are also starting to see the beginnings of a slowdown in housing activity, so taking further action now may be an unnecessary step.

Fed action has already worked to nearly double borrowers' mortgage rates at a time when home prices are also extraordinarily high. The combined effect of both dynamics has made it almost twice as expensive to buy the same house today as it was just two years ago. Consequently, some would-be homebuyers simply give up the search and are forced to rent instead. This serves to increase demand for rental housing and further raise the price of rentals. It follows that increasing mortgage rates when rental supply is already limited might actually have the effect of temporarily increasing housing inflation rather than decreasing it. Potentially worsening an already difficult housing affordability dynamic may give the Fed pause about pursuing MBS sales too soon.

Additionally, the MBS purchased by the Fed during the last round of QE was made up of mortgages with much lower rates than today. As a result, if the Fed were to start selling its holdings now, it would impact the supply of very low-coupon MBS. There would be relatively little effect on the price of higher-coupon MBS, which sets the secondary market for mortgages originated today. In other words, Fed sales of MBS would likely have a rather minor impact on thirty-year mortgage rates today.

Whatever course the Fed will take regarding MBS sales is anybody's guess. It seems prudent to err on the side of caution and refrain from outright sales in the near term to give its previous actions some time to work. If the slowdown in housing activity that appears to be underway now sticks, further action may be unnecessary. But if housing-related inflation becomes incessant, the Fed may have to resort to any means necessary to temper it.

Andrea F. Pringle is a Financial Strategist and MBS Analyst at The Baker Group. She began her career in Washington, DC, earning her MBA from George Washington University. Andrea worked on the Capital Markets Sales and Trading Desk at Fannie Mae for five years before returning to Oklahoma to work in corporate finance. Andrea joined The Baker Group in 2020, and her work focuses on mortgage products. Contact: 800-937-2257; apringle@GoBaker.com.


yhb
CPAs & Consultants
WE KNOW
COMMUNITY
BANKING
Internal & External Audit | IT Controls & Governance | Tax Services
YHBcpa.com


Visit us online:
at vacb.org

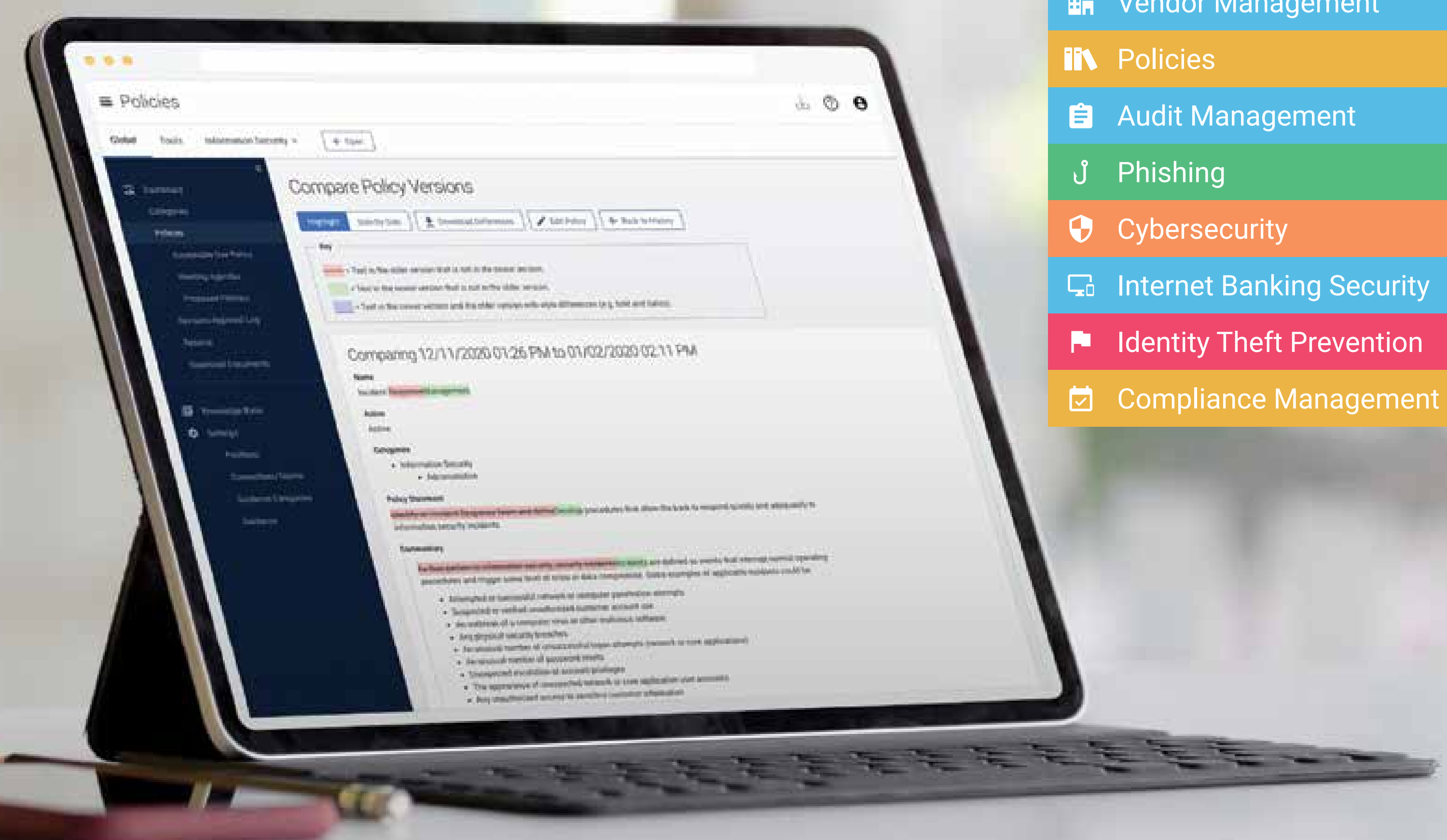

THE
COUNTS
Realty & Auction Group
Call us for your
Auction & Appraisal
needs.
434-525-2991
www.countsauction.com
828 Main St, 15th Floor Lynchburg VA 24504

Tandem

Easily Manage Information Security and Regulatory Compliance

See how it works at **tandem.app/demos**.
Mention this ad and find out how to receive a 25% discount on the Tandem GRC Bundle.

- Risk Assessment
- Incident Management
- Business Continuity Planning
- Vendor Management
- Policies
- Audit Management
- Phishing
- Cybersecurity
- Internet Banking Security
- Identity Theft Prevention
- Compliance Management



Tandem is a subsidiary of CoNetrix, a family of technology companies.

Why Being Kind at Work Matters

Kindness is a soft skill. Since kindness can be hard to teach, measure or master, many people dismiss it as a nonessential nicety that won't make or break your business. They value other capitalist-oriented skills more, such as ambition, grit and skill.

Consider a fictional example: Scrooge, the main character in A Christmas Carol by Charles Dickens. People recognize he is a miserable, lonely man, and no one would want to be like him or be around him. Yet Scrooge also fits the idea of the selfish and ruthless business owner who makes money because he is willing to take advantage of others. As the story begins, he thinks any generous act detracting from profit is foolish.

No business leader is likely to make similar claims in public, but when they consider the business ideas separate from the man, some might secretly think Scrooge's ideas have some merit. But this is a big mistake. The soft skill of kindness is not just an important life skill; it's also an important business skill. Being considerate, friendly, helpful and generous is a strength. It does not mean being a pushover or finishing last. Kindness means giving people the benefit of the doubt and remembering they may be dealing with difficult issues.

Kindness can strengthen business relationships within any culture, and many benefits involve employees. When the workplace culture is kind, communication is smoother and more effective, and employees are more likely to trust their leaders. Employees focus on their work and are less likely to compete negatively with other employees. Not only are relationships in and outside the company improved, but research also shows that employees with opportunities to be kind at work feel more loyal to their company.

Companies with a reputation for being kind find it easier to recruit and retain new employees. That's a huge plus, as there are currently more open jobs than people to fill them, and qualified applicants have their choice of jobs. Who wouldn't prefer working at a company where they can feel valued and respected?

Productivity also improves. Everybody makes mistakes, especially when trying out new business ideas. Employees can safely share information and be more innovative if the work culture kindly embraces learning from failure instead of punishing it.

Kindness is most challenging when it requires taking the high road and being kind in response to negative behavior. If you are trying to figure out why someone behaves badly, rather than treating them harshly, kindness is more likely to open someone up, giving them a chance to explain their side.

Customers respond positively to companies they believe are kind. When customers interact with a kind employee, a bond forms, resulting in increased customer engagement and brand loyalty.

Kindness is also helpful during difficult conversations. When speaking candidly to someone about a problem, kindly delivering what you must say is essential if you want the conversation to be a success. Choosing to be kind doesn't mean avoiding any discussion of difficult things. Balance honesty with kindness. The goal is to be empathetic and curious instead of harsh.

All employees should be courteous to everyone, regardless of status. Smile often. Say thank you. Use a kind, pleasant tone when talking, be clear and positive when communicating, and accurately express your feelings and ideas. The cleaning crew deserves the same level of civility as the company owner. Managers might also encourage employees to help others when their tasks are complete and to be generous about sharing space and material resources when necessary.

Be a good, thoughtful and kind listener. Listening skills improve communication, reduce mistakes and encourage collaboration. Make time for others when they need it. If employees need substantial help, schedule a time to work with them.

Doing little things, like complimenting someone's work and recognizing others when they do well, shows kindness. Recognize each person's strengths and abilities. You can also communicate appreciation with food. If appropriate, a manager could bring breakfast or provide a snack tray during an important meeting. And team-building activities create a positive environment and show you want the workplace to be enjoyable.

Since some employees are gatekeepers, their opinions and influence may be larger than you think. Please treat them with respect. Start by introducing yourself and asking for their name if you can't see their name on a tag or desk when you meet them. If they are busy, keep the conversation to a minimum. If they seem open to small talk, keep the conversation pleasant and neutral. Notice photos and awards. The next time you see them, kindly acknowledge them in a way that lets them know you remember your last conversation.

Don't be overly familiar with people you've just met. Avoid terms that might be deemed insulting or condescending, such as "sweetie," "babe," "son," or "dude." When there is an opportunity to talk with anyone, engage in meaningful but not polarizing conversations, such as talking in a general way about weekend plans, previous work experiences and family.

Notice when someone is struggling with a door or carrying large packages, and offer your help. Also, help other people succeed. Recommend people, send them referrals, and be willing to provide expert advice if asked.

If appropriate, mentor new employees. Mentoring can involve introducing a new employee to others, training them in their job responsibilities and helping them feel comfortable.

Being kind at work – and everywhere else – matters because it contributes to creating and maintaining a more positive world. It makes sense from a business perspective, but it also makes sense from a human perspective. There are no regrets about being kind, which is something you can't say about everything.

A Conversation with Linda Cohen, The Kindness Catalyst

Linda Cohen, the founder of Linda Cohen Consulting, is a professional keynote speaker known as the Kindness Catalyst. A consultant since 2012, Linda has a blog on her website (https://lindacohenconsulting.com). She has written two books; 1,000 Mitzvahs in 2011 and The Economy of Kindness in 2021.

It seems clear that you've made kindness your life's work. What is the story behind that?

My father called me in April 2006 after his terminal lung cancer diagnosis. He was a family therapist, and he had just turned 70. I was 38, with two young school-aged children. We had a difficult relationship, but I flew to Burlington, Vermont, and we started working to heal our relationship. He lived eight months after that call. Those months and the healing process were a gift. We both found peace; he died Dec. 1, 2006, on my son's sixth birthday.

Five weeks later, I woke up in the middle of the night with the idea that I would do 1,000 mitzvahs (good deeds) in his honor. Completing them was transformative. When I was more than a year into the project, my rabbi suggested that I write a book about it.

I thought the project was just a personal experience to help me process my grief, but it changed my life. In 2011, I did a TED talk to share the idea of kindness with other people. My first audiences were nonprofit groups like Girl Scouts, houses of worship and schools. Eventually, I realized how important kindness is in the workplace and why kindness is so important to business leaders.

Kindness is important everywhere. Why did you choose to focus on kindness in the workplace?

I could see that there were real challenges in the country and the world. Rhetoric was more challenging, and conversations were becoming more divided. Since people spend so much of their day in the workforce, I started looking for good business cultures and organizations that focus on kindness because I wanted to see their results. Also, I started working to bring kindness to the workplace. My first paid opportunities were with local government, health care and long-term health care, and then credit unions. I have continued working with many of these industries.

Why does kindness improve the bottom line?

My three Rs are reputation, recruitment and retention. When an organization gets a reputation for being unkind, its customers and staff often leave. In contrast, organizations with good reputations have an easier time recruiting talent. The third R is retention. If you tell people that your culture is one way, you hire them, and they discover it's not true, they will usually leave.

What is the easiest way to help business cultures turn toward kindness?

Start by listening. Some organizations listen to find out what is happening before they make changes. Schedule multiple sessions of active listening.

What's the next step after the first one?

Implementing what you can. For example, a fairly small company had its employees working remotely. They couldn't do their jobs because the schools were closed and their children were home.

Childcare is a huge challenge for most women. It should be everyone's problem, but it falls mainly on women. The company solved the problem by temporarily making the headquarters into a school. Employees dropped off their children at the temporary school, then went home to work.

What are your favorite stories about kindness in the workplace that have inspired you?

I met a volunteer manager during the first six months of the pandemic. She coordinated 75 working hospice volunteers. April was the usual time to honor volunteers, but she couldn't do a luncheon and provide recognition in the usual ways. Instead, she put together what she called a porch project. She got some cookies and mugs with the hospice logo, and then she and the other professionals in her organization drove over a large geographical area to thank the hospice volunteers by delivering

It is harder to receive kindness than it is to give kindness. Many people struggle with receiving, but when we receive kindness gracefully, we let them give us an important gift.

the cookies and mugs to them. Everyone wore masks and stayed socially distanced, but they could see each other eye to eye.

I heard the second story when I spoke at a women's leaders event for a major retail chain. I addressed 250 women, with only three men in the audience: the CEO and two vice presidents. They were working in the grocery market, and I asked them to share a time they had received kindness from a manager.

A woman raised her hand. A decade earlier, when she was in her 20s, she worked in a different state than her family and missed them very much. The manager called her in at Christmas and instructed her to buy a ticket the company would pay for, take a week and visit her family. That was a huge gift; you never get that holiday week off when you are in the retail business.

One of the three men in the room was the boss who made that Christmas trip possible. I got choked up, witnessing that. It reaffirmed the rippled effect and how long somebody might hold on to a remembered kindness. Most people don't forget.

What is the most important lesson about kindness that you've learned?

I have three lessons, not one.

1. The size of the kindness doesn't necessarily matter.
2. Kindness has a ripple effect. Even one act can make a difference.
3. It is harder to receive kindness than it is to give kindness. Many people struggle with receiving, but when we receive kindness gracefully, we let them give us an important gift. Thank you is a complete sentence, and we should practice it regularly.

Do you have a story to share that you heard after a presentation?

In my book, I wrote about one gentleman who was in the senior living world before the pandemic. He was the franchise owner of a home care business. He wanted to recognize people in their work because he knew they were working with elderly adults.

This business owner would meet on Mondays at the beginning of the pandemic with front-line home-care workers. It was still unclear how contagious COVID was, so he made sure he knew what they needed and gave them hand sanitizer, lunch and water. Later, when the staff returned to the office, he had them work Fridays at home that summer, beginning in June 2021. He knew they could work remotely and get their job done.

He made people feel valued and appreciated.

Do you have other mentors who have helped you along the way?

When I began speaking professionally, I joined the National Speakers Association. Keynoters, trainers and consultants are all members who have helped me 100%. I wouldn't be at my current level without their encouragement, and I have encouraged others, too.

What are some lessons you have learned from them?

A fellow speaker once said, "Curiosity didn't kill the cat; comparison did." Celebrate your wins before you start working on conquering the next mountain.

Also, build a bigger pie in your life. I try to live a life of abundance, not scarcity. Choose to live in a place of abundance. Tell yourself different work and a better client are coming when something doesn't work out.

What do you want readers of this article to remember about you and your work when they finish reading it? What is the main takeaway?

I invite you to become a kindness catalyst, too.

Humanity wants more kindness, and we are disenfranchised without it. When people are surrounded by kindness in the workplace, they are healthier, happier, less stressed and less burned out. Real-life research in the last decade supports that conclusion, and more research is continuing to come out.

Linda lives in Portland, Oregon. She and her husband have two adult children and one Cavalier King Charles Spaniel. To learn more, please visit lindacohenconsulting.com.

BANK TRAINING WEBINARS

fin-ed.info/VACB

4-OCT Chapter 7 & 13 Consumer Bankruptcies: Special Rules, Cramdowns & Risks
5-OCT Reg E & the Electronic Fund Transfer Act
6-OCT Are Safe Deposit Boxes on the Way Out?
11-OCT Call Report Loan Classifications
12-OCT Images, Video, Audio: What's New & Next for Social Media Platforms?
13-OCT Preparing for Examination Under the Mortgage Servicing Rules
18-OCT Traditional & Roth IRA Part 2: Distributions, Taxation, Withholding & Penalties
19-OCT Handling Reg E Disputes Confidently & Compliantly
20-OCT New Proposed Regulatory Policy on CRE Loan Accommodations & Workouts
25-OCT Handling Court-Ordered Accounts: Estates, Guardianships, Conservatorships & Bankruptcy
26-OCT Ability to Repay: Qualified Mortgages & TILA RESPA Disclosures
27-OCT Robbery Basics & Beyond

1-NOV Performance-Based Compensation Strategies for Banks
2-NOV Job-Specific BSA Training for Lenders
3-NOV SAR Filing Requirements: When, How & Why
8-NOV Form 1099 Reporting: Third-Party Vendors, Foreclosures, Debt Forgiveness & More
9-NOV IRS Reporting, B Notices, Fines & Penalty Letters
9-NOV Financial Exploitation & Elder Fraud
10-NOV Preparing for FedNow: Technology, Products, Services & More
15-NOV Mortgage Lending Compliance Overview
16-NOV Social Media: Paid, Owned, Earned
17-NOV BSA Essentials for the Board & Senior Management
29-NOV Best Practices for Performing Quality-Control Loan Reviews

1-DEC Board Secretary Procedural & Compliance Responsibilities
6-DEC Reg E Requirements for Debit Card Error Resolution
7-DEC When a Depositor Dies
8-DEC Managing Your Mobile RDC Program
13-DEC Consumer Account Documentation: Best Practices
14-DEC FedNow Risk Assessments & Fraud Controls

Community Bankers Webinar Network Powered by FinEd × VACB Virginia Association of Community Banks — One Mission. Community Banks.

Visit fin-ed.info/VACB for over 200 live & on-demand webinars

Ease into modern payments with the comfort of ICBA Bancard.

High quality, innovative payment products, including mobile card apps.

Backup support for your community bank in negotiating with payments providers.

Letting your customers sit back and use payment solutions from anywhere.

A strong foundation in thought leadership in payments and ongoing personalized support.

The CommunityBanker

Virginia Association of Community Banks
7204 Glen Forest Drive, Suite 101
Richmond, VA 23226

This magazine is designed and published by The newsLINK Group, LLC | 1.855.747.4003

ONE LAST THING ...

Did you know that you can enjoy your association news anytime, anywhere?

The new online article build-outs allow you to:

- Stay up to date with the latest association news
- Share your favorite articles to social channels
- Email articles to friends or colleagues

There is still a flipping book for those of you who prefer swiping and a downloadable PDF.

Check it out!

Scan the QR code or visit:
vacb-community-banker.
thenewslinkgroup.org