



NEVADA BANKERS ASSOCIATION

INVESTING IN NEVADA TOGETHER



Terry Shirey, president and chief executive officer, Nevada State Bank, Lorna James-Cervantes, school associate superintendent, Clark County School District, Suzanne Peyton, assistant principal, Ruby Thomas Elementary School, Dennis Kubala, principal, Ruby Thomas Elementary School, Students at Ruby Thomas Elementary School

Teach Children to Save

On Friday, April 20, 2018, Nevada State Bank presented a check for \$8,000 to Ruby Thomas Elementary School in celebration of Teach Children to Save (TCTS) and to support the school’s education efforts. In addition, bank employees presented timely financial lessons on “saving money” to Kindergarten, First, Second, Third and Fifth grade students.

TCTS, a free national program sponsored by the American Bankers Association Foundation, organizes banker volunteers throughout the year to help young people develop a savings habit early in life. Celebrated annually during April, Financial Literacy Month, this annual awareness day is an opportunity for bankers to demonstrate their commitment to the community by teaching young people the value of saving. Nevada State Bank has been a Clark County School District Focus School Partner with

Local Bank Volunteers Teach Financial Literacy, Prepare for Green Our Planets’ Farmers Market



This spring, Green Our Planet expanded the program to offer it to over 700 students at 12 schools with support from Bank of Nevada, Wells Fargo, Bank of George, Meadows Bank, City National Bank and Charles Schwab Bank.

APRIL 2018

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The NBA is the united voice of the diverse banking industry dedicated to providing the best financial resources to drive economic growth and job creation throughout the state of Nevada.



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House Leadership Expects S. 2155 to Pass in May

House Majority Leader Kevin McCarthy (R-Calif.) said yesterday that he expects the House to pass S. 2155, the bipartisan financial regulatory reform bill, sometime in May. “I think you are within a month of getting it . . . done,” McCarthy said at the Milken Institute’s Global Conference in California, according to news reports. “At the end of the day there will be a bill at the president’s desk.” House Speaker Paul Ryan (R-Wis.) also expressed a similar view yesterday, saying at a Weekly Standard event in Milwaukee that "we're a few weeks away" from passing financial regulatory reform into law. The Senate passed the bill with broad bipartisan majority in March.

SEC Issues Proposed Best Interest Regulations

The Securities and Exchange Commission (SEC) recently proposed two new rules and an interpretation to improve investors’ understanding of their relationships with investment advisers and broker-dealers. Under the SEC’s proposal, a broker-dealer making a recommendation to a retail investor would have a duty to act in the best interest of that customer at the time the recommendation is made. Broker-dealers can demonstrate their compliance with this duty with three specific obligations: an obligation to disclose key facts about the relationship, including material conflicts of interest; a care obligation that requires broker-dealers to exercise reasonable diligence, care, skill and prudence in understanding products and the customer’s best interest; and a conflict-of-interest obligation that requires policies to identify, disclose and mitigate or eliminate conflicts.



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Weinstein & Riley, P.S. is a full service law firm that operates nationally and focuses in the following areas: Default Servicing, Creditor Bankruptcy, Creditor’s Rights, and related Litigation.

The SEC also issued a proposal to require investment advisers and broker-dealers to provide retail investors with a “relationship summary,” a standardized disclosure with a maximum of four pages that would highlight differences in services offered, legal standards that apply to each, possible fees and conflicts of interest.



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Several states, including Maryland and New York, have considered implementing their own fiduciary standards for investment advisers and broker-dealers. Those states have expressed frustration with what they see as efforts to roll-back or weaken consumer financial protections, but have mostly agreed to thoughtfully and carefully evaluate the SEC’s approach before implementing any new law, acknowledging federal pre-emption and recognizing the benefits of uniformity across states. Nevada is the exception, having passed legislation to create a state fiduciary standard last year and awaits regulatory rules and guidance. The SEC proposals take a different approach than the Labor Department’s vacated fiduciary. The commission also proposed an interpretation reaffirming that investment advisers have a fiduciary duty toward their clients. Comments are due within 90 days

The Federal Reserve Board is accepting applications from individuals who wish to be considered for membership on the Community Advisory Council (CAC).

The CAC advises the Board on issues affecting consumers and communities. It is made up of a diverse group of experts and representatives of consumer and community development organizations and interests, including affordable housing, community and workforce development, small business, and asset and wealth building. CAC members meet semiannually with members of the Board of Governors in Washington to provide a range of perspectives on the economic circumstances and financial services needs of consumers and communities, with a particular focus on the concerns of low- and moderate-income consumers and communities. Submit an application:
<https://www.federalreserve.gov/secure/cac/application>



Compliance headaches?

Managing governance, risk and compliance (GRC) is a headache for most financial institutions. Regulations are constantly changing, and new requirements are always on the horizon. Paper and spreadsheets can't keep up.

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Four Mistakes Employers Make with Workers' Comp

Snell & Wilmer

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Many employers look at Workers' Compensation as just another unavoidable cost of doing business. It's usually one of those out-of-sight, out-of-mind issues when rates are low. It's not until employers are hit with rate hikes that they really start to give some thought to it.

Employers need to look at Workers' Compensation as a tool to improve the bottom line, and they certainly need to make an effort to keep their rates low over the long-term so they can take advantage of some significant savings.

Here are four mistakes made by employers that can deter their Workers' Compensation savings:

1. *Don't assume that lower rates equate to lower costs.*

Don't make the faulty assumption that your cost will automatically go down just because your rates have been reduced. Workers' Compensation insurers use an experience modification factor to examine the actual losses incurred by the insured company to establish cost. The actual losses are compared to other industry-alike companies. If the insured company's past losses are below average, then the insurer gives the company a credit rating lowering their premium, but an added surcharge is applied to the premium if the insured company's past losses are above average.

2. *Don't believe employers have little control when it comes to the expense of Workers' Compensation.*

Employers know they must have Workers' Compensation insurance. However, this acknowledgment shouldn't lead to an employer thinking they've got to pay excessively for it. Cost reduction starts with the hiring process. Initiate effective interview techniques and background checks to help ensure the right people are hired for the right jobs. That said, there's no way to completely eliminate the possibility of injuries in a workplace. Therefore, it's equally important to have an effective return-to-work program in place to simultaneously assist injured workers' return to work as soon as possible and reduce the cost of their claims.

3. *Don't neglect or de-emphasize cost containment and injury management during low rate periods.*

Safety should be an unyielding focus at all times. This will not only help a company reduce their claim numbers, but also keep their rates low over the long-term. Employers need to keep an eye on the issues that frequently impact the costs of claims, such as medical care costs and lost wages. Also, remember that open claims mean escalating costs and negative impacts to the company's modification factor. Of course, this causes an increased cost for coverage.

4. *Don't ignore the association between cost containment and worker retention.*

Studies have shown that fewer accidents occur among skilled workforces, but even skilled workers can have an accident. A large factor in whether or not an injured skilled employee returns to work is based on how the employer responds to the individual during and after recovery.

An important part of an employer's response is having a return-to-work program that includes maintaining constant contact with injured workers and their health care providers to monitor how they're recovering and when and how they can get back to work as soon as possible. Skilled employees are more likely to return if they are kept in the loop with a return-to-work program's periodic phone calls about workplace changes that might be occurring in their absence. On the other hand, skilled employees that feel forgotten, undervalued and disconnected are less likely to return.

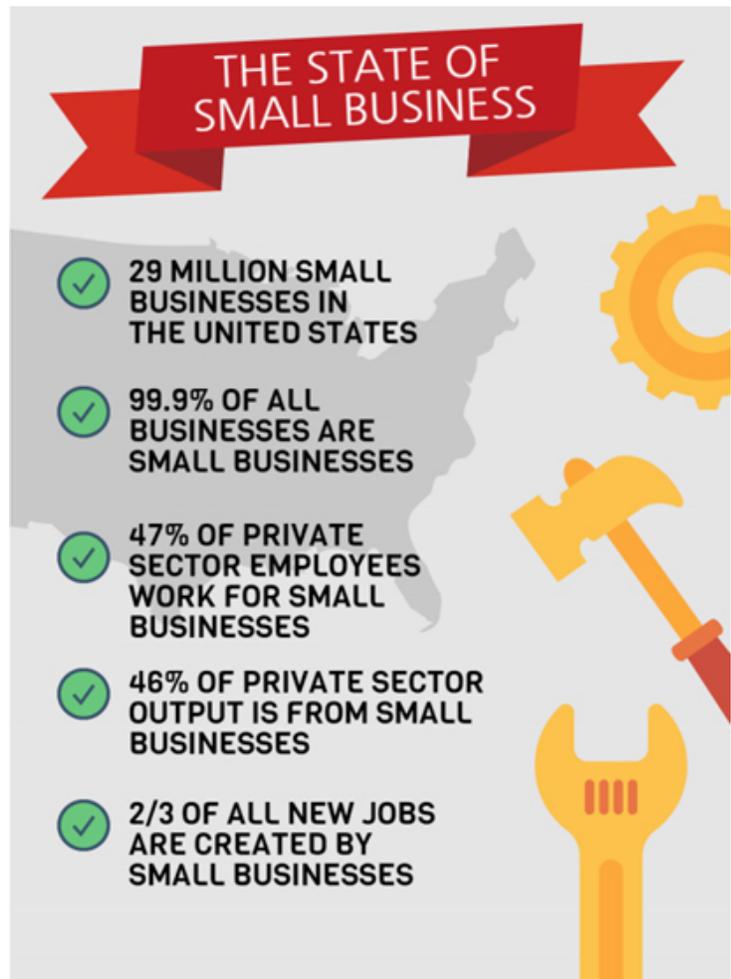
To learn how ManagedPAY's expertise can guide employers in reducing Workers' Comp costs, contact: Linda Perry, Safety Officer, ManagedPAY | 702-215-5880
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Nevada and the Business of Banking...

Recent Consumer Survey Findings.

We're touting the results of a Morning Consult survey ABA commissioned that found Americans like their banks and the services they are providing, and they agree it's time for some commonsense regulatory reform. Some highlights:

- 89 percent of Americans rate their bank as good, very good or excellent.
- 86 percent rate their bank's security and fraud prevention measures as good, very good or excellent.
- 76 percent trust banks to keep their payments secure—more than any other industry.
- 92 percent like their bank's online and mobile platforms.
- 73 percent percent of Americans believe Congress and the regulatory agencies should reassess the rules for financial institutions and make changes where needed.
- By a nearly 5 to 1 margin Americans think Dodd-Frank should be modified to allow financial institutions to better serve their customers and communities.
- And by more than a 4 to 1 margin, Americans believe the House should pass the Senate regulatory reform bill.



(Courtesy of the House Small Business Committee)

Economic Impact of America's Banks

Select from the drop down menu or click on the map to get a snapshot of how banks nationally or in your state drive economic growth and job creation.



AMERICA'S BANKS

At last weeks Government Relations Summit in Washington, D.C., the American Bankers Association unveiled its new America's Banks campaign. The campaign uses new videos featuring bank customers and employees to visualize how banks help people and places grow.

The new site, available at aba.com/AmericasBanks, also features an interactive map that allows bankers and policymakers to view the banking industry's impact in each state and nationwide. The map marks the first time the public has had access to this data on a state-by-state basis. Learn more at aba.com/AmericasBanks.

NEVADA'S BANKS: PEOPLE & BUSINESS:

Nevada Banks employee 5,239 people who live in Nevada.

Nevada Banks have 1.4 billion invested in Nevada small business loans.

What Bank Execs Told Us About Deposit Competition

Reg Truman, Regional Director
Promontory Interfinancial Network | Arlington, VA



Slightly fewer than two-thirds of the nation’s banks reported an increase in competition for deposits over the past 12 months. And an even larger fraction – nearly 75% – expect deposit competition to intensify over the next year. While this may not surprise industry leaders, it may interest folks to know that banks in the Northeast are bracing themselves for far more competition than their counterparts in the Midwest, South, and West. Expectations vary by asset size as well.

What are your expectations for deposit competition for your bank 12 months from now?

	Expect Deposit Competition to INCREASE	Expect Deposit Competition to REMAIN THE SAME	Expect Deposit Competition to DECREASE
All bank respondents	77%	20%	2%
Respondents from Banks with assets of \$1 billion or less	76%	22%	2%
Respondents from Banks with assets of \$1 billion - \$10 billion	84%	14%	2%
Respondents from Banks in the Northeast	93%	7%	0%
Respondents from Banks in the Midwest	70%	20%	2%
Respondents from Banks in the South	75%	24%	1%
Respondents from Banks in the West	70%	25%	6%

These statistics are brought to you by Promontory Interfinancial Network’s Bank Executive Business Outlook Survey, published quarterly. To download the complete survey, go to promnetwork.com/bank-surveys/Q32017.

Multi-State Partnership Boosts Buying Power for Nevada Community Banks

The Nevada Bankers Association has joined forces with 35 state bankers associations across the country to harness the buying power of our combined membership. This coalition of associations is formed under Synergy by Association, an association group purchasing organization owned by our friends at the Oregon Bankers Association. NBA partners with Synergy on their national program with Office Depot. This program allows Nevada community banks to access discounts typically only available to large institutions.

As the coalition of bankers associations has grown, so too have the benefits of the Office Depot program. Back in 2014, when NBA initially partnered with Synergy, the Office Depot program included a core list of 100 steeply discounted and frequently ordered items. Today, the discounted core list contains over 800 products. Moreover, Office Depot has added dozens of bank-specific items to the mix.

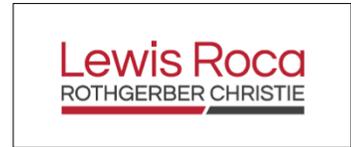
Beyond the discounted core list, NBA’s Office Depot program offers discounts on cleaning and breakroom products, furniture, print and copy services and more. NBA members can even create their own discounted core list featuring up to 75 items unique to your bank. Every bank in Nevada needs office and banking supplies. Make sure you are getting the best deal by signing on to NBA’s Office Depot program. Email bank.opportunities@officedepot.com for more information or visit <https://business.officedepot.com/banksignup> to request an Office Depot account.

From Ad Hoc Tools to Procedural Rules

The Uniform Commercial Real Estate Receivership Act (UCRERA) gives Nevada courts clear and limited guidance on the appointment and powers of commercial real estate receivers.

Rob Charles, Lewis Roca Rothgerber Christie LLP

The Nevada legislature recently made Nevada the third state to adopt the Uniform Commercial Real Estate Receivership Act (the “Act” or “UCRERA”). Time will tell whether a comprehensive statutory scheme for receivership will change prior practice under what was an ad hoc, case-by-case development of commercial real estate receivership practices in Nevada.



Historically, receivership has been an equitable tool of Nevada courts for decades. Before UCRERA, receivership was a remedy with limited authoritative procedural guidance – with few statutes and hardly any rules. Receivership is barely mentioned in the Nevada Rules of Civil Procedure. Receivership was provided by statute, such as Nevada Revised Statutes (NRS) Chapter 32. The statutes generally described circumstances for appointment of receivers such as avoiding fraudulent transfers, in aid of foreclosure (NRS 107.100), to enforce an assignment of rents (NRS 107A.26) and enforcement of judgments. Corporate law has a receivership remedy for insolvent and dissolving corporations.

Although a regularly used tool, the absence of procedural rules, and the lack of authority for use of remedies such as a receivership sale, created uncertainty, delay and expense. The arbiter of what was possible in a case was each judge, informed at times by the parties in court filings and argument at hearings. The ultimate arbiter of the receiver’s power to sell real estate was the underwriter for title insurance.

UCRERA Highlights

The Act is effective for receiverships on or after **October 1, 2017**. While not comprehensive, it is a start.

- **Notice** The statute presumes judicial action after notice and an opportunity for hearing, although ex parte receiverships are authorized in limited circumstances, subject to a bond requirement.
- **Commercial** The statute applies to commercial real property, including related personal property, but excludes residential property. The statute does not explicitly address other types of receivership, such as corporations. The procedural suggestions would be useful in other types of receiverships.
- **Receivership Grounds** Although the statute lays out grounds for appointment of a receiver, these largely mirror existing Nevada statutory and contractual bases.
- **Rules** The statute directs the Nevada Supreme Court to adopt rules to fill in gaps, including protection against receiver self-dealing.
- **Receiver Authority** The statute makes explicit routine receivership order provisions for the receiver to have exclusive possession and control over receivership property.

New Provisions for Nevada Practice

- **Looks like bankruptcy** Provisions that mimic bankruptcy law are adopted, including giving the receiver the status of a lien creditor (to avoid borrower unauthorized transactions), and validating revolving liens on receivership property. The Act adopts the bankruptcy dichotomy between ordinary course of business transactions, which do not require court approval, and out of the ordinary course transactions, which do.
- **New Powers** Powers that were utilized in the last recession, under the Act requiring court approval, include incurring debt, breaking borrower contracts, using or transferring receivership property.
- **Stay** Continuing the adoption of bankruptcy concepts, the Act imposes a stay automatically to protect receivership property, subject to several of the exceptions provided in the Bankruptcy Code.

Receivership Sales The sale provision allows sale free and clear of the lien of the entity obtaining the appointment of a receiver, and junior interests. Unfortunately, there is no attempt to integrate this sale power into Nevada’s extensive anti-deficiency and one form of action laws, leaving uncertainty as to possible borrower deficiency liability. A receivership sale is subject to credit bidding and the liens extinguished attach to proceeds. The Act adds a statutory mootness protection for buyers from receivership sales, which will comfort title insurers that previously have insured titles from receivership sales largely on faith and a lack of objection or appeal.

Contract Assumption and Breach The power to adopt (assume) or reject (breach) borrower contracts is both a bankruptcy concept and potentially powerful. The Act voids contract provisions terminating rights due to appointment of a receiver or the owner’s financial condition. The implications of contract rejection on a counterparty to a timeshare or lease of residential property are addressed in the Act to avoid undue hardship.

Procedure Additional procedural provisions of the Act concern compensation and reporting by the receiver.

Since the proposal of the Act, Nevada, Utah and Oregon adopted the UCRERA and it has been introduced in three other states. Although limited and not yet codified, Nevada judges may well appreciate being relieved of lengthy, opaque receivership orders in favor of clear statutory provisions.

Rob Charles is a partner and leader in Lewis Roca Rothgerber Christie’s Bankruptcy and Creditors’ Rights team, and practices throughout Arizona and Nevada. He represents clients in business bankruptcy cases, commercial lawsuits and business transactions. Rob primarily represents both secured and unsecured creditors, as well as debtors, in all aspects of Chapter 11 business bankruptcy cases before the bankruptcy courts and in appeals. He works extensively with lenders and borrowers out of bankruptcy in all aspects of debtor/creditor relationships, including receiverships, workouts and litigation.

The firm’s Banking and Regulatory Compliance practice assists financial institutions with sound legal advice across a wide range of legal disciplines including collections, forbearance and restructuring, creditor’s rights and bankruptcy, foreclosures and deeds-in-lieu and lender liability defense. Our clients include banks, bank holding companies, commercial finance companies, life insurance companies and others in the financial arena.

NEVADA STATE DEVELOPMENT CORPORATION UNVEILS NEW 25-YEAR SBA 504 LOAN PROGRAM FOR SMALL BUSINESSES

*Longer maturity option offers more flexibility to meet borrowers' needs while
maintaining fixed, below-market interest rate*

Nevada State Development Corporation, the state's largest SBA 504 loan provider, is excited to announce that SBA now has a new 25-year 504 loan option to better meet the needs of some small business borrowers. The new 25-year loan program, which complements the existing 10- and 20-year options, is designed to make it easier than ever for borrowers to reach their goals. All three terms available offer fixed, below-market interest rates.

"The new 25-year option, which we have just added to our terms available under the U.S. Small Business Administration's 504 loan program, promises to be an ideal solution for some of our borrowers," said Evan Dickson, president of Nevada State Development Corporation. "Business owners who opt for the 25-year program will typically see savings of thousands of dollars a year on their payments, which means increased cash flow for the small business. With more cash on hand, business owners can focus on expansion, acquisitions, payroll, adding more staff, enhancing client services, or whatever their particular needs may be."

As an illustration, consider the distinctions between the total payments a business would encounter on a \$1 million project under a 20-year loan versus a 25-year loan, assuming a 10 percent down payment, which is common for SBA 504 loans. With a 20-year loan, the monthly payment on the SBA portion of the package would amount to \$2,628.79, based on 20-year amortization at 4.95 percent on \$400,000, or 40 percent of the finance package. Payment on the bank portion would amount to \$3,070.44, based on 25-year amortization at 5.50 percent on \$500,000, or 50 percent of the finance package. So the business's total monthly payment would come to \$5,699.23. However, under the 25-year option, the monthly payment on the SBA portion would amount to \$2,326.72, based on a 25-year amortization at 4.95 percent on \$400,000, while the bank portion would remain the same. The final result is total monthly payment of \$5,397.16 under the 25-year program for the hypothetical \$1 million project — a savings for the business owner of \$302.07 per month.

The new 25-year option conforms to the standards of traditional SBA 504 loans. Business owners may use it for real estate purchases, including land or buildings; improvements to existing buildings; or the purchase of equipment. It offers a fixed, below-market interest rate. Down payments are as low as 10 percent. SBA 504 loans of 10 or 20 years remain available for businesses that prefer a loan with a shorter maturity. For more information on Nevada State Development Corporation, please visit www.nsdsc.com.

VOLUNTEERS FROM LOCAL BANKS TEACH FINANCIAL LITERACY IN THE CLASSROOM AHEAD OF GREEN OUR PLANET'S GIANT STUDENT-RUN FARMERS MARKET

Beginning in April, local volunteers and financial experts from five area banks visited fifth-grade classrooms across the valley in preparation for the nation's largest student-run farmers market, organized by Green Our Planet. The Outdoor Garden Classroom Program, founded by Green Our Planet in 2013, is a comprehensive learning experience for PreK-12 schools focusing on STEAM, nutrition, conservation education and financial literacy. The Garden Financial Literacy Program was designed in collaboration by bankers and educators to offer students age-appropriate lessons about the various elements of running a business by creating a farmer's market business plan for selling items grown in the school gardens. The curriculum covers the standards that became law in the 2017 legislative session, addressing financial literacy in the classroom for grades three through 12.

Through the program, fifth graders are provided insights about the role of banks and bankers in business and their community; why it is wise to save money, how pricing and expenses affect their profits and the important role of entrepreneurs and businesses in our community. Students have the opportunity to practice customer service, negotiations and cash handling skills through engaging exercises. Students are also encouraged to plan how they will attract customers and differentiate themselves from their competition through their marketing efforts. The lessons culminate at the student-run farmers market where students will interact with customers and have an ideal opportunity to apply what they learned in the classroom.

Bank of Nevada bankers piloted the program last fall at five

schools. This spring, Green Our Planet expanded the program to offer it to over 700 students at 12 schools with support from Bank of Nevada, Wells Fargo, Bank of George, Meadows Bank, City National Bank and Charles Schwab Bank.



The community is invited to put the students' financial literacy knowledge to the test by visiting the largest student-run farmers market and purchasing fresh produce, grown by the students in their school gardens.

"This is truly a unique opportunity for local bankers to work together to provide student 'Farm-preneurs' financial literacy lessons in close coordination with their teachers. As part of this commitment, many of our banker volunteers will attend their school garden's harvest and are excited to help coach the students at the Farmers Market on the day of the event," said Mariana Johnson, community engagement manager for Green Our Planet and senior vice president/client relationship officer for Bank of George.

The spring 2018 farmers market will feature over 400 students from 45 Clark County schools selling their school garden-grown produce and crafts to the community. Proceeds from the market go back to the schools to expand and maintain the schools' garden programs.



Justice for All?

April is Financial Literacy Month

If you're reading this, chances are you're pretty good with numbers, pretty good with finances, and comfortable with money. But what if your family of four lived at the poverty line - just \$24,600 in 2018 – and you're living paycheck to paycheck? What if you experienced a serious work accident and became unable to work your construction job, and were denied workman's compensation. How would you pay your family's rent? Could you afford a lawyer to fight for your rights? Or would you be lost in an unfamiliar, complex, and confusing legal world not knowing where to turn. Will you end up on the street?

Too often, getting a fair legal outcome for people without money for a lawyer means justice denied. That's where legal aid comes in. Legal aid is often the last resort for people in desperate need of expert legal help to get their problem fixed. And this isn't just a "scenario", it's something Nevada's legal aid providers see every day.

But what can happen with the right legal help? An appeal is filed, emergency housing support is provided, if necessary, and you win your appeal. Most people who appeal on their own lose. With a legal aid attorney, there's an 80% success rate. This success leads to other important successes, like avoiding homelessness, keeping kids in the schools they know, and opening doors to the health rehabilitation necessary to get the worker back on the job. All of this prevents a cascading downward spiral of further government spending and emergency family needs that helps create social stability and saves money for communities and taxpayers.

Most banks know they pay favorable rates on IOTLA accounts. Most don't know the value those dollars return to society.

By Brad Lewis, Director, Nevada Access to Justice Commission

Justice for All? is a monthly series about *civil* legal needs experienced by the poor. Leading Nevada financial institutions pay favorable rates on IOLTA - Interest on Lawyer Trust Accounts - that, along with court filing fees, grants and other funding, help deliver access to justice for *all* Nevadans, regardless of their ability to pay.

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Lending Throughout Nevada since 1981

Calendar of Events



June

June 20-22, 2018

IBA, NBA & OBA Summer Convention & Annual Membership Meeting
Hyatt Regency, Lake Tahoe

REGISTRATION IS OPEN:

<https://www.oregonbankers.com/convention.html>

Rooms fill quickly, call and reserve now:
1-800-233-1234, reference NBA 2018 annual convention to take advantage of the discounted room rates.



Save the Dates:

2018 Western States Capitol Hill Visit
Arizona, Colorado, Montana,
Nevada, Utah & Wyoming Bankers Associations
October 2-5, 2018 | Washington, D.C.

FDIC Directors College | **October 30, 2018** | Las Vegas, NV

Otting Previews OCC Actions on CRA, BSA, Small-Dollar Loans

The OCC's top policy priorities are changing regulations on the Community Reinvestment Act, the Bank Secrecy Act and small-dollar lending, Comptroller of the Currency Joseph Otting said yesterday during the final day of the ABA Government Relations Summit. On CRA issues, he said that the agency would issue a long-awaited advance notice of proposed rulemaking in the next four weeks.

Otting said the agency is looking at better ways to measure CRA performance, simpler methods of verifying compliance and a broader definition of what qualifies for CRA credit, which he said has been generally limited to residential lending to low- and moderate-income borrowers. "I'm a big believer that we should stretch that to more small business, more community development," Otting said.

He also pointed to the massive efforts by banks of all sizes to comply with BSA reporting requirements, which capture far too many non-suspicious transactions, he said. Despite the best intentions of the industry, "we've evolved to where this is almost impossible to comply with." Otting also said he believes there is an opportunity for banks to make more small-dollar loans in the \$500-\$5,000 segment. "If we can get people back into the regulated market, that will be better for them and the economy," he said.

While he is paying attention to underwriting trends, cybersecurity and leveraged lending, Otting said that overall "the outlook is very positive" for banking. "We do not see material deterioration in underwriting," especially at this point in the cycle, he said. "For the most part, the aggressive lending has stayed outside the banking industry."

The Honorable Joseph Otting will be speak with Nevada bankers at the NBA Annual Convention June 22, 2018

CECL Implementation – Step By Step

Lately, bankers may find that they are more dedicated to loan loss calculations than before, as everyone tries to get their hands around the Current Expected Credit Loss (CECL) standard. CECL will require you to calculate reserves based on expected losses for the life of the loan, which is different from the Incurred Credit Loss (ICL) standard.

To help address some of the pieces of something as large and complex as CECL, we offer these step by step suggestions:

Inventory & Analyze Your Data. Though CECL is a departure from your current method of loan accounting, you most likely already have most of the information you need. Knowing this, start to review and take inventory of your data.

Sort Your Data. Basically, data can be broken down into three primary groups for CECL. The first is descriptive data, which is the purpose and nature of the loan. The second is performance data, which includes loan/risk grade, charge-offs and recoveries. The final piece is cash flow descriptive data, which is needed to determine how repayment will occur over the life of the loan. Here, it is crucially important to include the impact of prepayments.

Assess & Evaluate Methods. Now that you have your data, you will need to start looking at suitable methods to use. There are several options, so be sure to choose the one to suit the data, not the other way around. For example, the static pool analysis method works well for very homogenous loans, while vintage analysis may work well for amortizing loans with shorter maturity structures and similar balance sizes.

Remember Where We Are. When it comes to choosing which method to use, know that most banks currently use the average charge-off method. This may work well under CECL, but it is important to note that the Great Recession was an anomaly. So, if that is the only economic cycle you have results for, you may need to search back further in time to “dial down” these results to “normal” levels.

Get More Math-y. The roll-rate and probability of default methods will typically better reflect current credit quality than other methods, especially if your lookback period is over the Great Recession. Recall that there were more classified loans held during this time, which causes other methods to skew higher. You can also consider using discounted cash flow analysis. This can lower reserves, but also requires more work when dealing with recoveries.

Test, Retest & Then Act. As you work along, take a close look at your evaluation method. Seek to understand how the method will work now AND as economic conditions change over time. As you refine things down, ensure that your auditors, examiners, bank executives and board are all on the same page. To read more about CECL, check out our CECL resources.:
<https://www.pccb.com/products/cecl/>

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The Time for Econtracting Is Now

By Andy Mayers

I recently participated in a panel discussion at CBA Live focusing on dealer motivations, e-contracting, operational efficiencies, and internal dealer issues.

From the discussion, we heard common observations about the future of dealerships and how they need to adapt to the consumer's desire to enjoy a better experience purchasing a car. However, the common takeaway was to meet today's customer expectations, the role and purpose of F&I needs to change.



As Millennials and Gen Z have taken over the market, they are using their computers and smartphones to complete a considerable portion of the shopping process before going to the dealership. Customers want a faster and more digitized car-buying experience. However, even though customers want to complete more of the purchasing process online, most of them still want to come to the dealership to test drive, consult with a sales person and complete the purchase.

So, it is important for dealers to remember that when customers come into the dealership, they need to be ready. Customers become frustrated when paperwork they submitted online does not make it to the dealership and needs to be filled out again, when negotiations and paperwork take over the purchasing process, and when the F&I process takes too long. The average buyer spends three hours at the dealership during a car purchase, with 90 minutes – half of the time – spent on negotiating the financial details. This led to consumer satisfaction on the car buying process continuing to decrease, dropping from 55 percent in 2016 to 46 percent in 2018, according to the Cox Automotive's Car Buyer Journey Studies.

Customers want the finance process to be faster and easier which corresponds to the entire purchasing process at the dealership needing to be consolidated. The more a dealership can digitize the process, the higher the satisfaction rate for customers will be.

As we look towards the goal of providing a fully digital retailing experience for consumers, most dealerships have digitized a large portion of their marketing and sales processes. The one area that continues to fall short is the financing and lending process. As demonstrated by the emergence of FinTech companies, Cox Automotive's Accelerate solution, and our own lending partners, the credit application process is moving on-line. But to deliver a fully digital experience, dealers need to be able to close the deal with a digital contracting process as well. Digital Contracting enables a paperless experience where everything is verified, signed, and final contract packages are delivered to lenders and customers digitally. This saves time for the dealer and the consumer and maximizes efficiency and resources.

For dealers looking to make the move to digital contracting, they need to remember some important factors to make it a success.

- The entire signing process needs to be more transparent and portable. Rather than having an unmovable piece of equipment in the F&I manager's office, the F&I process needs to become mobile so it can be done anywhere at any time.
- Dealerships need to have the proper infrastructure in place – WiFi, tablets, wireless printing or remote document delivery capabilities in place.
- Digital Contracting requires a change in the dealership process. As in every innovation in the dealership, it's only as successful as the staff makes it. To truly recognize the financial benefits of faster funds and less recontracting, dealer staff needs to be trained and fully accept econtracting as the new normal. Ongoing training and education need to be offered to continue to make it successful.

My CBA panel was just one discussion, but these ideas are resonating in every conversation I am having throughout the industry. As new technology is incorporated in the lending process with the benefits clearly spelled out positively for the dealer and the customer, econtracting is the next step in bringing dealerships into the future.

Andy Mayers is the Lending Solutions Strategist at Dealertrack, a Cox Automotive company.

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