

FIRST  
QUARTER  
2019



# THE KANSAS CORRESPONDENT BANKERS' BANK OF KANSAS

## LOAN REVIEW ESSENTIALS

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When bank examiners walk through your door, one of their first requests may be for the bank's loan review report. Examiners expect the loan portfolio risk to be accurately assessed and documented. When expectations aren't met, the repercussions can be significant. Whether conducted by in-house staff or externally contracted, a loan review must be independent from the bank's origination and portfolio management functions and give an unbiased assessment of credit and quality.

As one of the institution's largest financial assets, it is vital that the loan portfolio is on track with the direction set by the bank's senior management and board of directors. Instituting a sound and objective independent loan review program puts your bank in the position to proactively manage the portfolio for risk and overall direction. Even larger banks with internal loan review staff can benefit from an independent loan review to validate its own findings and create efficiencies.

Regardless of bank size, an effective loan review program safeguards the board of directors and management. Below we've outlined some points for your board to consider when contracting with an independent firm to conduct a loan review.

### **A collaborative loan review approach provides the best results.**

Open, ongoing communication between the review team and the on-site lending staff is instrumental in establishing an ongoing relationship built on trust and respect. Engaging competent, experienced loan review professionals that understand diverse lending types and approaches will help ensure results that have credibility with lending staff and management.

### **Hire professionals who solely specialize in loan reviews.**

Examiners rely greatly on the independent loan review report because it represents an objective analysis of the quality of the bank's loan portfolio.

*Continued on page 3.*

## IN THIS ISSUE

Loan Review  
Essentials

Not So  
Fast(er Payments)

Add Hedging to  
Your Toolbox

2019 Chairman  
Address

# FROM THE 2019 BBOK CHAIRMAN MARK KEENY

I am honored and humbled to serve as chairman of the board at Bankers' Bank of Kansas. I would like to thank the directors and shareholders of Bankers' Bank of Kansas for the opportunity to chair such a great banking organization and continue to prove every day that BBOK is truly a lifelong trusted partner.



For me and our fourth-generation family-owned community bank, this opportunity to serve as chairman represents a near full circle. Back in 1988, at a time when a reliable correspondent bank was hard to come by, 39 community banks and bankers took a leap of faith by investing in a start-up correspondent bank. Max Deterding – my father-in-law – was the majority owner of three separate chartered Kansas banks: Citizens State Bank in Atlanta and Winfield; Turon State Bank; and First National Bank of Kingman. Each of our three family banks were founding shareholders in BBOK. Max believed in the concept of an independent correspondent bank that would provide great customer service and products, be a ready source for capital, and not directly compete with Kansas banks for loan customers. At a time when many agricultural banks were struggling and were not viewed as a “good risk”, this group took a leap of faith with measured risk to form Bankers' Bank of Kansas.

Over the years, our bank has grown and changed, as many of your banks have also done. We merged our three charters in 1994 and have utilized the services of several correspondent banks. As we consolidated and acquired additional banks, one constant was a relationship with BBOK. Now, as a bank with 10 locations and \$385 million in assets, BBOK is our primary correspondent bank. Why? Because we trust BBOK to provide professional correspondent services from experienced people.

As we have grown so has BBOK, and we utilize more products than ever before. Bankers' Bank of Kansas has proven to be THE trusted partner for Citizens Bank of Kansas. Bankers' Bank continues to actively advocate for banks in Kansas and uncover the future needs of its customers and shareholders, responding by strategically growing its stable of products, adding technology and staff expertise.

**Thank you for being one of over 200 banks that believe in the mission of BBOK, and one of the 188 shareholders that provide capital to grow Bankers' Bank of Kansas together!**

Sincerely,

Mark Keeny

*Mark Keeny is chairman of the Bankers' Bank of Kansas board of directors and CEO of Citizens Bank of Kansas in Kingman, Kansas.*

# CONDENSED STATEMENT OF CONDITION

## MARCH 31 • 2019

## LOAN REVIEW *Continued.*

The professional conducting the loan review should have a deep knowledge of the examination process from a banker's standpoint.

### It's not all about the fees.

When searching for the right independent loan review consultant, finding a good value is important, but equally important are the deliverables and protocols for the process. An effective loan review is not a rehash of what your bank already knows. It warns of problems that could happen and recommends proactive adjustments to mitigate potential losses.

### Reports should be clear and concise and include industry trends and benchmarks against similar institutions.

The loan review report should provide management with a thorough assessment of credit quality and provide recommendations to help the bank maintain a comprehensive risk management practice. In addition, the bank should receive current information about ongoing and emerging market trends that might affect collectability of the loan portfolio; how the institution falls relative to similar institutions around the state; and developing areas of regulatory focus.

### The loan review process helps the board manage all aspects of a bank's credit quality and processes.

A loan review will assess the adequacy of the bank's loan policy and procedures to ensure compliance with State and Federal regulations. Actionable insight from the loan review process provides portfolio-wide exception levels that can be drilled down to specific portfolio segments and lenders, if needed. The report should also include an effective action plan for troubled loans and establish a reporting mechanism for assets to watch.

<b>ASSETS</b>	
Due from Banks	16,295,311.76
Securities & Time Deposits	5,365,401.44
Net Loans	129,496,048.82
Federal Funds Sold	16,323,000.00
FRB/FHLB Bank Stock	394,350.00
Net Fixed Assets	1,061,847.09
Other Assets	8,596,348.91
<b>TOTAL ASSETS</b>	<b>177,532,308.02</b>
<b>LIABILITIES</b>	
Total Deposits	142,863,666.08
Federal Funds Purchased	0.00
FHLB Advances	6,000,000.00
Other Liabilities	2,499,794.47
<b>TOTAL LIABILITIES</b>	<b>151,363,460.55</b>
<b>EQUITY CAPITAL</b>	
Common Stock	750,000.00
Surplus	3,478,000.00
Undivided Profits	21,954,726.75
Net Unrealized Gain (Loss) on Securities	(13,879.28)
<b>TOTAL EQUITY CAPITAL</b>	<b>26,168,847.47</b>
<b>TOTAL LIABILITIES &amp; EQUITY CAPITAL</b>	<b>177,532,308.02</b>
Securities in Safekeeping	7,195,228,220.00
Agent Federal Funds/EBA Balances	713,103,000.00
Loans Sold	138,340,061.91
<b>TOTAL FUNDS UNDER MANAGEMENT</b>	<b>8,224,203,589.93</b>

YTD STATEMENT OF INCOME	MAR 2019	MAR 2018
Net Interest Income	1,562,770.40	1,411,178.41
Other Income	1,916,610.05	1,943,679.22
Other Expense	2,819,231.86	2,403,856.14
Net Operating Income	660,148.59	951,001.49
Provision For Loan Losses	105,000.00	105,000.00
Provision For Taxes	130,098.70	200,031.99
Net Income After Provisions	425,049.89	645,969.50

CAPITAL RATIOS	BBOK	WELL CAPITALIZED PER REG F
Total Risk-Based Capital Ratio	19.06%	12.50%
Tier 1 Risk-Based Capital Ratio	17.80%	10.50%
Common Equity Tier 1 Ratio	17.80%	9.00%
Leverage Ratio	14.54%	5.00%
Past Due & Non-Accrual Loans to Total Loans	0.10%	

# MARKETING MERCHANT SERVICES



Bankers' Bank of Kansas merchant services powered by TSYS Merchant Solutions gives banks the ability to offer business customers an affordable way to accept all major payment types at the cash register, via smartphone, via tablet or online. In exchange, the bank receives non-interest income from transaction processing fees.

In the competitive merchant services environment, just offering the product isn't enough to convert customers to users. Does your bank have a champion designated to promote merchant services? How can you increase the number of business customers using merchant solutions through your bank?

If you are a TSYS provider, here are some marketing tips to increase customers:

## 1. Train your staff.

TSYS offers complimentary in-house training for lenders and frontline employees. Employees with a good understanding of the product can discuss it with ease and authority. Trainers will teach the benefits of TSYS, provide talking points and supporting sales materials, and ultimately give your employees confidence to discuss the merchant services process with business customers.

## 2. Reward salespeople.

TSYS banks receive a \$100 referral bonus for every activated merchant. Passing that bonus on to employees is one way to incentivize employees to sell the product and put a little extra money in their own pocket.

## 3. Request customized marketing pieces.

TSYS offers well-designed brochures, table tents and other marketing materials that can be customized with a bank logo.

## 4. Run a campaign through TSYS.

When a bank provides a qualified referral list to TSYS, TSYS will do the sales work on behalf of your bank and you reap the rewards. Many BBOK banks have seen their customer numbers grow by partnering with the skilled marketing team at TSYS. And now through June 30, 2019, banks will receive points toward rewards for every qualified referral that becomes a new approved TSYS merchant.

*For questions about becoming a TSYS merchant services provider or to find out more about the TSYS marketing programs available, contact a relationship manager or Amanda Williams at 316.681.2265.*

# ADD HEDGING TO YOUR TOOLBOX

Competition for commercial loans remains fierce. It's imperative banks have numerous lending solutions to compete, including traditional lending to leasing services to bank stock financing. Bankers' Bank of Kansas lenders work with our bank customers to find viable solutions to satisfy the lending requests of customers while strengthening the bank's bottom line.

Having a toolbox of flexible lending solutions gives banks an opportunity to have deeper conversations with customers about the pricing and structure of deals. Engaging customers about their funding needs and financing goals, and educating them on the cost of managing market risk and credit worthiness, can help determine which lending solution is best to bring borrower and bank together.

When traditional lending options aren't enough to get the deal signed, loan hedging through Bankers' Bank of Kansas might fill the gap. Leveraging the combined strength of the bankers' bank community,

BBOK has partnered with Pacific Coast Bankers' Bank to bring customers a community bank focused hedging product with full support, including:

- Management, board and lender training.
- Convenient access to pricing and multiple loan pricing scenarios via computer or mobile phone.
- Presentation material and rate information for borrower education.
- Pre- and post-trade documentation.
- Trade execution.
- Full accounting support.

*Contact your relationship manager at 316.681.2265 for more information on adding hedging to your commercial loan offerings.*

# EVOLVING PAYMENTS

*Chris Gilbert is the chief information officer at Bankers' Bank of Kansas. He can be reached at 316.681.9224 or [cgilbert@bbok.com](mailto:cgilbert@bbok.com).*

A few years ago when I took a seat on the Secure Payments Task Force, you started hearing from us about the importance of evolving a payments strategy. We told customers that it was time to start looking at the role of faster payments in your bank. We issued a challenge to incorporate faster payments into five-year strategic plans. We encouraged banks to poll customers and see what they desired. We asked banks to fill out surveys and create timelines.

Fast forward and today several payment solutions have gone live. You've most likely heard of Zelle and The Clearing House solutions. Likewise, if you are using one of the big core processors you have already been told the benefits of these two systems, designed largely to meet the needs of the top 25 banks in the country. So where does that leave Kansas banks? Those \$2 billion and under? Do the banks in the Bankers' Bank of Kansas network need to jump on board right now to a very expensive, long-term contract? These are the questions many of our banks have posed to BBOK.

The fast-moving pace of the fintech world can leave community banks feeling one step behind the banking giants, but the reality is the solutions out there now may not be an ideal option. We suggest that now is the time to pull on the reins. Be wary of long-term contracts, as new technologies are emerging every day. I am not suggesting you rest and think that your bank doesn't need a strategy.

There will absolutely come a time when every bank who wants to be competitive will need to offer this service.

How will banks know when the time is right and what is needed to prepare? We encourage banks to assess today's market needs and anticipate future ones. Use bank data to develop customer profiles that outline customer's preferences. How do they interact with your bank? What businesses would benefit from distributing real-time payments? How do customers prefer to pay for goods? What account-based services do they use the most? How is this different than just a few years ago? How are these preferences changing?

Bankers' Bank of Kansas, along with 10 other bankers' banks from around the country are collaborating with regulators, banks, Fintech companies and other stakeholders to create the best solution for banks in our network, specifically those \$2 billion and under. Ideally the system will integrate with other faster payments participants through a central infrastructure, have widespread use through open architecture and be a complete system that works with all core processing systems.

As the payments system evolves and new technologies emerge, we encourage banks to continue researching and creating strategies to evolve while mitigating risk. Rest assured we are also working to define a right-sized solution for BBOK customers.

## BANKERS' BANK OF KANSAS WELCOMES OUR NEW BOARD MEMBERS



**Brian Chamberlin**  
President/CEO  
Andover State Bank  
Andover



**Michael Ewy**  
President/CEO  
Community State Bank,  
Coffeyville



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