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The Garland Group

**MEETING NOTES**  
**for**

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**ICBA Technology & Operations  
Conference**  
April 2009

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## Notes on “Managing Technology in Difficult Times”

**Moderator: Henry E. Garland**

### PANELISTS:

- Gina Windel – CFO FNB NM in Clayton, NM
- Richard Bradfute – CIO, Sr VP: James Polk Stone NB, Portales NM
- Jerry Bell – IT Project Mgr; Lea County State Bank, Hobbs, NM

**HEG:** ICBA Technology Survey available – excellent info on spending on Technology, etc  
Recommend to search Banktastic for ICBA for details.

Full report available on ICBA.org.

- [Covers what technologies are banks looking at today, and how much should they spend?]

### IT Exam Issues:

**HEG:** Overall view tends to be negative; Cup is really half full not half empty.

**RB:** Just finished OCC exam; good feedback; Audit Function and Risk Assessment. Created a Board level committee; How often audit function done? Chaired by outside party; Risk assessment for all areas of bank; RA drives the Audit schedule;

**HEG:** Board audit committee? Unusual to see in small banks but a very good idea.

### **Q: Can you discuss what your red flag procedure process is, and how that’s going?**

**JB:** Done risk assessment and now going to the Board; Identified all areas; education of front line supervisors and staff: Policies made at top, and we need it to trickle down. Biggest challenge is to ensure what the policy says is what we are doing.

**GW:** We have 2 people detailed orientated; hopped on Redf Flag over a year ago; Done employee training; A lot of requirements of Red flag overlap other areas like BSA, etc.

### **Q: Does anyone know from Redflag how it’s going to be reviewed and examined;**

**A:** FDIC 2-handed approach; IT examiners will look at actual program, risk assessment, how you cover it, and what your plan it; Compliance side looks at documentation (addr change)

### **Q: Remote Deposit Capture: No contract will get you out of your liability. Anyone heard that?**

**GW:** first time she heard contract limits liability... We have kept close tabs on oit; Know your customers for RDC; All would like to see guidance

**Examiner (Diane) :** *Part of reason comment made—most contracts with service providers is a standard contract that the bank didn’t draw it up--- service provider did and it’s to their benefit. Compliance, CC GLBA, Reg Mgmnt---- Federal statues; Just because contract is not by bank, it does not free the bank from complying to law; Due diligence needed; responsibility rests with the bank and the BOD; statutory contracts have laws that have to be met;*



**HEG:** Need strong language to limit your liability; See many contracts that are all worded differently with check lists; liability same for every customer; reduce paperwork;

**Examiner Diane:** *KNOW YOUR CUSTOMER; examiners finding banks getting involved in high volume RDC, ACH origination relationships; can get out of hand fast; high risk; Not only providing RDC with ACH conversion to known customers--- some are doing it with brand new customers--- out of control easy--- 30-60 days--- bottom line KNOW YOUR CUSTOMER*  
**Examiner:** *ACH ACH ACH (you will see it next year)*

**JB:** If we inspect PC for spyware and malware, if you have RDC, bankers will need to certify and inspect all PCs...

**Examiner:** *If attached to the bank, then might have to do that; if going back to service provider, yeah they want to do that.*

**HEG:** goes back to customer contract;

**Q:** *We are looking into RDC and Cash Mgmt--- do you hold public entities at the same level as a customer you know of--- how do you know?*

**Examiner:** *If it's a municipal entity; truth is, (snorrreeeeeeee) not as dire as some*

**HEG:** Important to look at importance of consolidating agreements with everyone.

**Jerry Walker:** Everyone signing a contract will have attorney look at it; make sure the indemnity clause in the insurance contract is covered as far as bank concerned.

### **TOP CONCERNS – What do we focus on?**

**HEG:** How do we show a value? Strategic planning important; making better use of information. What kind of things are you doing to promote IT to the bank; How do you sell yourself to the bank?

**RB:** We (IT guys) go to EVERY board meeting; preach SECURITY big-time; Can't cut funds for security; lot of emphasis and focus on what bad guys will do; makes sense to not be stupid; Cut the fat elsewhere; Intranet they set up; set browser to intranet as default page; Use it as a repository, etc. Bring up something IT related at every Board meeting; keep it at the forefront of everything. Excited about opportunities he sees happening ---place IT in strategic positions--- RDC--- very effective way of getting customers and keeping them. Market swayed by IT security, etc.

**HEG:** Cost allocation? Income and expenses for branches?

**RB:** There is a line item for that on Bill Pay--- we know how much we spend; start RDC and rolling it out, that will create more Revenue.

**JB:** We started justifying cost; our strategic plan; security, compliance, generate business; IT committee meets every week; exec summary to BOD; loan dept wants software we ask them to justify it; Value of IT dept in that SWAT(?) – how do you justify a whole new program and productivity... Looking at new technology for communication;



**HEG:** Users want new software; you get it, you are responsible for it; process to Tech Comm. and to the BOD; ROI on product --- go back to process and make them justify it.

**RB:** Keeps inviting BOD members to IT dept--- show them where the money is going; Make them understand the value and need for security thru technology; Everyone in the bank should understand the function of IT and what it does for them. Challenge every officer to come to IT and spend time; if BOD understands what you are doing, it makes it easier to get the money you need.

**Gina:** Has well-educated board; into High Tech; Board's philosophy, not can we afford it? It's more we can't afford to NOT have it; Gina's frustration, when there is something IT wants, Gina wants to see the hard dollars; Decided to move email in-house---was told they would have to get a server; Month later; now we need spam blocker for this much, and also a server to run it---- More and more things added; IT people need to do homework ahead of time and get numbers in advance of asking for it. From a CIO perspective, it is frustrating....get the totals up front. Do your due diligence up front.

**HEG:** Technology Strategic Plan? About 20% of you here. For those of you without one, sit down and think it thru and talk to your end-users. Doesn't have to be sophisticated; examiners asking more about it; need a plan;

**RB:** Have strategic plan and also another tactical plan (action plan?)

**HEG:** puts others on notice that he will be spending money in future on other servers, etc as needed.

**HEG:** Fraud detection software? (all said yes)

**HEG:** Average spending for non-interest income: ( percentages spent on IT related...)

**RB:** has number but ran it differently; percentage of income; 6-8%

**Gina:** ours a little higher; non-interest income is way up there; costs a little higher

**JB:** about 11% - very tech savvy;

**HEG:** Do you have a GL report and does it include item processing;

**JB:** we have a GL and have to justify everything; Disaster Recovery project big spender right now.

**HEG:** Questions?

### **What Technologies are showing up on Banking arena:**

Mobile banking, Merch BC; Document Check imaging, Online statements, Online acct opening/closing, VOIP, Virtual Server virtualization, Data Comm, Web 2.0

**HEG:** Huge advocate for thin client... I saw 4 hands raised; thin client is something you need to look at for strategic plan long-term.

**RB:** Love thin clients for security, and they are cheaper, can't get viruses, can't store data on them, etc. All processing done on servers; cool thing is you install new products on servers not on all PCs. If you are



not doing it, LOOK AT IT. Very manageable. Hewlett Packard with 2 virtual servers – used for testing right now; We're going to. Mostly good for BCP; Setting up a separate site with virtual servers for a hot site; Using terminal services;

**Q: Thin client, as long as you have access levels drilled down; they will help you pass a SE test; passed it. Locked it out with thin clients;**

**HEG:** Terminal services - good way to go; Go to Banktastic.com and post THIN CLIENT and read about it.

**RB:** We can lock down regular PCs to where they can't do anything. You can have a fat client that looks like a thin client;

**JB:** Got in on the end of that project; virtualization for doc for disaster recovery, we replicate daily on a T1 line; exchange is also replicated; took servers and virtualized them and put servers at disaster recovery site; If virtual server dies, then you automatically have a box for disaster recovery; looking at using virtual desktops—next thing we will look at.

**HEG:** Mobile computing... customer's pda's – very few banks have embraced mobile computing fully; how many using VOIP? New branches going in, excellent time to get a VOIP phone and put it in the branch.

**Questions: ???**

**Gina:** thin client from a bank person, not a tech person; I want to move there because of the cost; updating workstations a problem; I can go to any office and use my sign-in and can get on to my data; don't have to be set up at every office; esp with branches a long distance apart.

**RB:** You don't have to be on thin clients to set that up... profile can follow you around.

**HEG:** Web 2.0 --- Gina has I--- Basecamp --- less than \$50 a month – place files out there, recipient has to be signed in and secured to get it; can send to customers, too. TGG uses it...secured portal. HOT TOPIC...

**RB:** Twitter --- most useless thing I have ever seen--- but we use it. You can also use it as a business app to keep in touch with customers; young generation is already there; We also have a Facebook site; FREE; working on ways to use it with our customers.

**JB:** I want to put in a plug in for Banktastic.....LOVE IT! Networking together; was told IT pros in NM are a close-knit group; Good for posting up questions from other bankers and IT people; generates many answers instantly! Keep in touch and trade different types of secrets. Twitter – look at it as a standpoint as complaints against your bank.... I want to see if anyone is out there talking about our bank...go find out what the problem is... resolve it. Another app for Twitter.

**Jerry Walker:** one word of caution; Anti-trust laws; we don't want to violate them.... Talk to our lawyers about not violating them.