



The Bankers' Bank of Kentucky

P.O. Box 713, Frankfort, KY 40602-0713

The Correspondent

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Gearing Up For IAT

The ACH Network will have a new Standard Entry Class (SEC) Code starting in September of this year. The previous Cross Border Payment will change to International ACH Transaction, or IAT. This is a major change for ACH and affects almost all of the participants in the network.

All financial institutions, whether receiving or originating, will have to be able to identify all IAT items and perform OFAC screening for possible matches. This scan must be documented in some form and will be a part of not only the annual ACH audit, but BSA exams as well. By now, you should have an idea how your core processing system will handle these items. Since the original start date was March of 2009, many providers should already have a near-finished product available.

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From The Loan Department *John B. Clark, Executive Vice President*

Purchased Participation Loans

The underwriting and administration of participation loans has become a point of emphasis by bank regulators. This is primarily driven by the present condition of our economy, coupled with the general size and complexity of these credits. It is very important that the purchasing bank's files contain evidence of adequate due diligence, continued credit administration, and a current risk rating. The loan's officer should be conversant about the credit in order to answer questions posed by field examiners. A lack of knowledge by bank personnel can result in a downgrade and criticism. Additionally, your bank's personnel should be able to prepare a cash flow and debt service coverage ratio. We recommend special attention be paid to these credits prior to your examination to ensure that all documentation is current.

Risk Rating and ALLL Methodology

Risk rating as a component of Allowance for Loan Loss (ALLL) calculation has been receiving significant attention in recent examinations. Risk ratings should be assigned to loans at origination based on several factors including liquidity, debt repayment capacity, net worth, credit repayment history and LTV. In addition, large credits should be reviewed periodically to ensure the initial grade is still accurate. Recent regulatory guidance recommends annual reviews. Examiners suggest a tiered risk rating system for "pass" loans. BBKY employs 4 pass grades. Some larger banks employ as many as 20 pass grades.

These risk ratings should play a significant role in your portfolio segmentation. Some regulatory suggestions for broad segmentations include analysis by portfolio type, call report classification, and risk rating. Further analysis can be done by loss history, underlying collateral, economic factors, and concentrations.



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IN THE NEWS...

Check Scams On The Rise

Use of real customer or business names and addresses along with valid bank routing numbers on homemade checks is becoming the scam of choice. Someone makes a purchase from a person, sends a check for significantly more than the purchase amount to cover shipping and other expenses, and asks the seller to wire the remaining funds back. This results in the seller not only losing his product, but the amount that was wired to the "buyer". Often, the buyer has funds wired to yet another person in another city.

The FBI has put out some simple questions for consumers to ask themselves, such as "Why is the name on the check a business and not a person?"; "Why are they sending me more than the required amount?"; "Why are they sending the check via overnight delivery instead of wiring me the money?"; and as always "How could I have won a lottery if I never played?".

Inform your tellers about these scams so you can help your customer, and you, avoid a loss!

New Relationships for March/April

Settlement/Cash Letter Clearing:

King Southern Bank, Chaplin/Louisville KY
Bluegrass Community Bank, Danville KY
Farmers Bank, Marion KY

RapidClear Image Cash Letter:

King Southern Bank, Chaplin/Louisville KY
Bluegrass Community Bank, Danville KY
Farmers Bank, Marion KY

Dataline:

Bluegrass Community Bank, Danville KY
Farmers Bank, Marion KY

Safekeeping/Bond Accounting:

Taylor County Bank, Campbellsville KY

Credit Card Services:

Bank of Jamestown, Jamestown KY

DDA/Fed Funds Relationship:

Farmers Bank, Parsons TN



Spring Customer Conferences Upcoming

We have three Customer Conferences scheduled:

April 23rd in Jackson, Tennessee
 April 24th in Bowling Green, Kentucky
 May 7th in Lexington, Kentucky

Registration information can be found on our bbky.com website.

Topics will include investments services, asset liability mgmt., BBKY credit services and card services, Dataline update, ACH, and international services.



IAT *(Continued from page 1)*

If you have not received details from your core system provider on how IAT's will be identified, scanned, and reported, contact them immediately so that you can update internal procedures and train your staff. If you are an in-house bank and receive your ACH files directly from Fed or from BBKY on Dataline, you have a few options that you need to explore in the next couple of months.

Fed is offering delivery of a separate file containing only IAT items, for easier identification and handling. BBKY will also have this option on Dataline. We will have a second option available for our customers where a user merely clicks on a button to view any IAT items that might have been received in a particular file. All Dataline file receivers will have the ability to OFAC scan ACH files regardless of the option that you choose, thus eliminating the need for a third-party software product or perhaps costly upgrades to core processing software.

If you have customers who will be originating International ACH Transactions, the same OFAC requirements exist. Again, Dataline will have the ability to perform your required scanning and reporting. We will also be testing our platform with Fed so that our individual respondent customers will not have that added burden. Once our platform is certified, any of our customers will have the ability to transmit IAT items after completing the necessary agreements with Fed.

Action Items For Preparation

- 1) Contact core providers to inquire on IAT readiness.
- 2) Obtain detailed procedures for your core provider or core software to handle IAT.
- 3) Establish internal staff procedures for identifying and handling IAT items.
- 4) Incorporate handling procedures in your ACH Policy.
- 5) Incorporate IAT in your OFAC/BSA Policy.
- 6) Train staff on all changes to policies and procedures to ensure proper handling and compliance.

Visit our website www.bbky.com or...
 call us toll free! 800-248-3229



The Bankers' Bank of Kentucky

Helpful Fax Numbers

Operations: 502-695-0638

Wire Room: 502-848-5739

General: 502-695-0221

BBKY Staff Changes

We would like to welcome Amanda Ronca to The Bankers' Bank of Kentucky. Amanda will be a Wire Transfer Operator, allowing Thomas McCrosky to begin training as a Support Specialist. Thomas will be assisting customers with Dataline and performing other duties in the IT Department.



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