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Apace of change

Coming in 2020: Credit unions buying banks, government regulating cannabis business loans and tech moving faster than ever

Plus
Amazon visits Southwest Virginia and
Another Select Certified industrial site for Northeast Tennessee

Bruce Whitehurst, president, Virginia Bankers Association.
Inset: Colin Barrett, president, Tennessee Bankers Association.



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Region's bankers are cautiously optimistic heading into 2020

But the pace of change, they say, is increasing

by Scott Robertson

Bankers who are stuck in old ways of thinking are as irrelevant as free toasters and Christmas clubs. Twenty years ago, no one would have predicted Dodd-Frank level regulation or the rise of fintech (financial technology) much less the questions regarding banking cannabis-based businesses. Clearly, this is not your father's banking industry.

The last two weeks of October are lobbying season for bankers. Virginia Bankers Association President Bruce Whitehurst was in Southwest Virginia in late October, holding a roundtable with bankers and government leaders. "The Southwest Virginia delegation definitely is a very good strong delegation," Whitehurst says. "There's a good amount of tenure. Of course, Terry Kilgore chairs the Virginia House Commerce Committee, which is the committee that oversees all business-related legislations."

Likewise, when *The Business Journal* was having a hard time reaching Tennessee Bankers Association President Colin Barrett in the 615 area code because he was "out of the office," we finally tracked him down less than a mile from our own offices as he held a similar roundtable with Tennessee State House Commerce Committee Chair Timothy Hill in Johnson City. "We're blessed in Tennessee to have really good legislative leadership on matters of commerce," Barrett says. "The new Speaker of the House, Cameron Sexton, from over on the Cumberland Plateau, is a banker."

The agendas for the two roundtables were different, despite

their geographic proximity. In Southwest Virginia, Whitehurst says, cannabis was a leading topic. "Virginia bankers are kind of caught in the middle. There are 33 states which have legalized

some form of marijuana production and distribution. But, because federal law is more restrictive, marijuana remains a controlled substance and illegal. So, we've been briefing legislators on the fact that we are lobbying Congress for legislation that has already passed the House and is pending in the Senate called the Safe Banking Act, which says that in a state where cannabis has been allowed in some form or another, banking those businesses would not run afoul of the law."

It's not just doing business with cannabis producers that could cause problems if the federal government were to take a hard line on banking with businesses that trade in cannabis, says Leton Harding, president, chairman and CEO of Powell Valley Bank. The proliferation of CBD oil sales in traditional brick and mortar establishments opens up a huge gray area. "The law is very strict, but somewhat nebulous. And, if CVS is selling CBD products, then everybody is doing it. Yet, we could get bitten because we don't have some sort of formal pronouncement from regulators."

In Tennessee, which hasn't legalized marijuana yet, bankers have other issues top-of-mind. Tennessee bankers are very interested in pushing for a levelling



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— Bruce Whitehurst

"They want to do everything on their iPads or on telephones at home, at night."

— Larry Estep



"We were optimistic last year and we're cautiously optimistic this year."

— Dale Fair

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of the playing field with credit unions. In fact, Barrett says he has been to Washington seven times this year for meetings on that topic. And while he doesn't see immediate changes on the horizon, Barrett says congressmen have begun to perk their ears up because of a new development. "It's not just credit unions taking bank customers. Credit Unions are buying banks. Credit Unions have always talked about how they're not banks, but if one can buy the other, then there's really no difference." The outcome of the 2020 presidential election could have significant impact on how that issue is eventually resolved, Barrett says. Of course, not all issues facing bankers are regulatory in nature.

"Information security technology is top of the house," says Dale Fair, CEO of Bank of Tennessee. "This is probably as important as asset quality and making good loans used to be. That was top of the house, and we do a good job of that too. But these information security issues – there's so much out there that this is a top of house for us."

Larry Estepp, Citizens Bank president agrees. "We're constantly adding more firewalls and patches to our system in order to prevent someone taking advantage of us through technology. Because it's such a wide-open field, we have to be changing and adapting to stay on top of that on a daily basis. It's not like you can say, 'well, we'll invest in that next year.'"

Another complicating factor is that banks' customers can have as great an impact on security as employees or managers. "One of our jobs as a community bank, is not only protect the customer's information, but to help the customer protect their own information," Fair explains. That becomes more difficult every day as a higher percentage of customers prefers to bank from home.


Younger customers don't even want to step foot into a bank branch, says Estepp. "They want to do everything on their

iPads or on telephones at home, at night." But when those same customers do need to interact with a human banker, adds Gerald Hallenbeck, Northeast Tennessee Market president for First Horizon, they demand top-flight service. "We have to be quick learners on the technology side, but we value the one-on-one interaction."

Older customers are still more likely to bank in person, but generational differences create circumstances that are much more impactful than whether customers prefer using an app, Harding says. "According to the FDIC, net deposit growth for all banks in the United States this year has been zero." How is that a generational issue? As older bank customers pass away and leave their assets to younger relatives, those relatives are more comfortable moving the assets into non-bank account investment vehicles. "They've had 401(k)s all their lives," Harding says. "They have a different comfort level."

The outlook for 2020 is summed up by every banker *The Business Journal* spoke with in one phrase: cautiously optimistic. "We haven't heard a lot of negativity from our customers," Fair says, "but there are factors that are beyond our control, such as the economy and changes in the political world."

And, of course, each bank has its own circumstances. First Horizon, for instance, just completed a rebranding that eliminated the old First Tennessee and Capital Bank nameplates in multiple states across the Southeast. But the

outlook is still based on banking fundamentals, Hallenbeck says. "We're always watching for any sort of decrease in economic situations, but we haven't seen it yet. I don't see or feel anything in our company that says, 'Hey, we've got to slow it down because we're afraid the economy's going to slow down. You know, you just stay with the fundamentals. Make good loans to good people and you'll be fine.'" 



"I think there's questions on what this presidential election might mean as well."
– Colin Barrett

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