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**ACBB STRATEGIC ALLIANCES**

BY JON EVANS

ACBB has throughout the years developed strategic relationships with firms who provide financial services to the community banking industry. Typically, these firms maintain the following core values:

- Proven track record of commitment to our industry
- Solid and stable management team
- Expert in their business

ACBB performs its due diligence as if they were a critical vendor. This process many times includes hosting a webinar for a group of banks for feedback and assessment. The vendor is only selected after a successful due

diligence process and a win-win-win can be structured. The community bank should be able to benefit from lower pricing as well as

ACBB's involvement and commitment to quality customer service. ACBB wins by offering value added services while generating some fee income. The key word here is 'some' and this is what differentiates our model from the rest. Typically, we seek enough of the revenue to be reimbursed for our marketing, legal, and sales expenses. In this way the bulk of the savings is provided to you – our customers and shareholders. This



Jon Evans  
President & CEO, ACBB

philosophy is consistent with our for profit cooperative model and our mission. The management team of ACBB is guided by its Board of Directors who have tasked management with earning enough money to generate a ROAA of 0.5%, then figure out how to return the rest in

the form of services and investments in the future. Compliance Anchor and BITS are perfect examples of this. The 0.5% ROAA will typically help us maintain a 'B' rating with the rating agencies (we are currently "A" rated by Bank Insight/SNL) while meeting regulatory expectations.

In future newsletters, we will be announcing some new alliances which we feel are important to community banks. In this article I would like to introduce a product and company offering core processing services.

An oligopoly exists with the big three. Each is pursuing more core, operational and management services in order to make it virtually impossible for a bank customer to leave. Banks have gone from buying 'sticky' products to now realizing they are stuck in quicksand.

This is why we have formed an alliance ("ACBB Strategic Alliances" continued on page 3)

**ACBB vendors are only selected after a successful due diligence process and a win-win-win can be structured.**

**WELCOME NEWEST CUSTOMERS:**

**Malvern Federal Savings Bank**  
Paoli, PA

**Commercial Bank and Trust of PA**  
Latrobe, PA

**Beverly Bank**  
Beverly, MA

**First Commons Bank, NA**  
Newton, MA



**FINANCIAL HIGHLIGHTS (consolidated)**  
**BALANCE SHEET** (in thousands)

	Unaudited	Unaudited
	9/30/16	9/30/15
<b>ASSETS</b>		
Cash and Due from Banks	\$153,305	\$224,143
Investment Securities	95,216	78,152
Federal Funds Sold	66,546	62,320
Loans, net	228,326	206,643
Other Assets	34,809	29,900
<b>Total Assets</b>	<b>\$578,202</b>	<b>\$601,158</b>

**LIABILITIES AND CAPITAL**

Deposits	\$363,912	\$409,889
Federal Funds Purchased	75,339	79,059
Other Borrowed Money	54,707	31,356
Other Liabilities	6,756	6,756
Total Liabilities	500,714	527,060
Equity Capital	77,488	74,098
<b>Total Liabilities and Capital</b>	<b>\$578,202</b>	<b>\$601,158</b>

**INCOME STATEMENT** (in thousands)

Interest Income	\$9,941	\$8,826
Interest Expense	1,919	1,457
Net Interest Income	8,022	7,369
Provision for Loan Losses	(90)	(410)
Realized Gains (Losses) on Securities	0	0
Non-interest Income	10,147	9,548
Operating Expenses	13,629	13,540
Taxes	1,406	1,133
<b>Net Income</b>	<b>\$3,224</b>	<b>\$2,654</b>

**THE MARIJUANA HEADACHE**

As more and more states are legalizing either recreational and/or medical marijuana, what are financial institutions supposed to do when it comes to banking Marijuana-Related Businesses (MRBs)? A number of banks have simply said they will not bank any MRBs and believe this statement is sufficient to enable them to ignore the marijuana issue altogether. Unfortunately, it is not as easy as that, although it would be nice if it was!

The first thing a bank must do is define "Marijuana-Related Businesses". Are they the growers, processors, and distributors only? On the other hand, does this include other entities such as a trucking company that transports for various companies including a marijuana grower? What about lawyers that service marijuana companies and receive payments for those services and deposit those payments in your bank? What about employees of those entities that want to process or cash their payroll checks at your bank? What happens to a commercial loan for a strip mall where one or more of the tenants are MRBs? If those MRBs are closed by the government, is the collateral for your loan at stake?

**...whether or not your bank wants to service MRBs, every bank will eventually be touching the marijuana industry in some fashion.**

(Continued on next page)

**SUMMARY OF FINANCIAL HIGHLIGHTS AS OF JUNE 30TH**

YTD Net income of \$3,224,000, was \$570,000 above September 30, 2015 year to date. Several one-time income events helped drive non-recurring profits, including additional interest income from the resolution of problem loans, gains on the sale of OREO properties, and one-time non-recurring item from ACBB-BITS. Excluding all non-recurring items, core income was ahead of September 2015 by 18.6%, and exceeded the 2016 YTD budget by an average of \$45,000 per month.

**STRONG CAPITAL LEVELS:**

Total Risk-Based Capital ratio = 24.03%  
Tier 1 Risk-Based Capital Ratio = 22.75%  
Leverage Capital Ratio = 12.84%

**FUNDING DIVERSIFICATION AND BALANCE SHEET RESTRUCTURING:**

Net loans increased \$21.7 million year over year, and grew 9.7% over June 30, 2016.

Other borrowed money increased by 75% over September 2015 as maturing CDs have been replaced with long-term FHLB advances being used to fund new long-term loan growth.

**CREDIT QUALITY:**

2016 YTD charge-offs were \$188,000 while YTD recoveries totaled \$24,000.

Past due loans that are still accruing were 0.1% of gross loans as of September 30, 2016.

Robust loan loss allowance despite YTD credit to provision, as illustrated below:

- ALLL to Total Non-Current Loans of 503.2%
- ALLL to Total Loans of 3.54%
- Texas ratio of only 3.67%

Return on Average Assets	0.74%
Return on Average Equity	5.66%
ALLL to Non-performing Loans*	320.8%
Non-performing Assets to Total Assets	0.54%

\* Includes performing TDRs

("The Marijuana Headache" continued from page 2)

As you can see, whether or not your bank wants to service MRBs, every bank will eventually be touching the marijuana industry in some fashion. So, a bank must first define what they consider an MRB, and afterwards establish policies and procedures regarding those definitions.

This is a daunting task, so we are hosting a webinar on December 8th to assist you in this process. Our speakers will be



covering this topic from various perspectives to help you determine how your bank will address the marijuana issue. Our speakers are Steven M. Schain of Schain Law Firm, Steven Kemmerling who runs MRB Monitor (a software system to identify MRBs), Lauren Kohr, CAMS-FCI, CFIRs, who will present a BSA Officer's perspective, Debbie Wendt, AAP of Bankers Bank of the West which includes banks in Colorado, and Sundie Seefried, CEO of Colorado Credit Union that is banking MRBs.

For more information on this webinar or Compliance Anchor, please contact Nancy Lake at [nlake@acbb.com](mailto:nlake@acbb.com).

## DID YOU KNOW?

ACBB recently launched their new website!  
Check it out at [www.acbb.com](http://www.acbb.com)

("ACBB Strategic Alliances" continued from page 1)

with COCC, a core processor that maintains the for-profit cooperative structure and is owned and managed by community financial institutions.

COCC is an award-winning client-owned core processor for financial institutions throughout the northeastern United States, headquartered in Southington Connecticut. Founded by community financial institutions in 1967, this cooperative structure sets them apart from the competition by allowing them to deliver the best service and products in the industry keeping the community bank model in mind.

Having the latest core technology utilizing an Oracle database, .NET infrastructure, and open architecture enables COCC to stay on the leading edge of innovation due to ease of development, integration, and operational efficiency.

Unlike many of the large conglomerate core processors COCC offers only one core platform. *INSIGHT*, COCC's only core solution, provides significant economies of scale, benefiting clients in terms of R&D investment, enhancements, compliance, servicing, support and training.

A great example of the open architecture is that COCC recently built CRM/Contact Management functionality directly within *INSIGHT* using App technology. This allowed new functionality to be created and released in a short period and now it is part of the core system for all clients, **free of charge!**

Unlike many other core processors COCC will work with any third-party vendor on behalf of the financial institution to interface to its solutions of choice. A perfect example was their willingness to partner with BITS. COCC is the only core processor to offer clients and prospective clients BITS hosted voice services on their data network. Adaptability and commitment to their clients proves why COCC receives high marks year over year.

**App technology has allowed new functionality to be created and released in a short period and now it is part of the core system for all clients, free of charge!**



## YOUR BULLETIN BOARD

### ACBB Upcoming Webinar

**SWAPS** – Learn more about hedging interest rate risk with SWAP products – From FHLB advances to commercial loan products.

We hosted our first webinar on September 20 and we will be hosting additional webinars in the near future.

### Compliance Anchor 2016 Upcoming Events



#### Webinars

Nov 29 HMDA - Change is A-Comin'!

Dec 8 Banking Compliance Issues in Legalized Marijuana Webinar

Jan 12 Beneficial Ownership

Jan 24 Regulator Roundtable

#### Veterans' Venues

**BSA**            **Compliance**

Dec 6            Dec 15

Jan 4            Jan 19

Feb 7            Feb 16

Please visit [acbb.com](http://acbb.com) for more information on Compliance Anchor.

Interested in becoming a Compliance Anchor Subscriber? Contact Nancy Lake at [nlake@acbb.com](mailto:nlake@acbb.com).

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## EMPLOYEE SPOTLIGHT: ERIC MUMMAU

Please help us welcome Eric Mummau! He joined ACBB in August as a Loan Relationship Manager.



Eric Mummau  
Loan Relationship Manager

Eric grew up in Mt. Joy, PA in Lancaster County on a small family farm. After high school, He enlisted in the US Army and worked as a Finance Specialist while stationed in Ft. Benning, GA. Upon completion of his term in the Army, Eric began attending Gordon College in Wenham, MA where he graduated with a B. S. in Economics with a concentration Business. During his time as a student, he began working as a teller for a community bank in the greater Boston area. Upon graduation, he began working in the commercial credit program and later moved into the Field Examiner position in the Asset Based Lending Group. While employed, Eric completed an Executive MBA program at Suffolk University in Boston, MA. After relocating back to Central Pennsylvania, he worked in Commercial Lending and Credit Risk Management positions. Eric's lending experience covers Commercial and Industrial loans, Commercial Real Estate including construction, multi-family and owner-occupied, and Letters of Credit.

His civic and social involvement has included participation in Colonial Park Rotary Club, CARPOA (Capital Area Rental Property Owners Association), Greater Harrisburg Association of Realtors, and a Leadership Harrisburg Graduate. Eric enjoys exercising, reading, and being involved in church as a teacher, leader, and in community outreach activities.

Eric is married to Cathy who works as an Office Administrator for a small accounting firm and has two children. His son Andy is a student at Liberty University and daughter Emilie is a senior at Susquehanna Township High School. They reside in Susquehanna Township.

Eric will be serving community banks in Northern and Western Pennsylvania, Upstate New York, and Maryland. Feel free to contact Eric at (717) 441-4519 or via email at [emummau@acbb.com](mailto:emummau@acbb.com)



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