



FINANCIAL FEED

2024.Q1

Fraud Trends and Best Practices

Tools and Resources to Help Fight Fraud

FINANCIAL FEED^{2024.Q1}

As the Fed continues to wrestle with inflation and the labor war carries on, businesses across the U.S. displayed a great deal of resilience in 2023. Overcoming various post-Covid challenges, businesses are seeking informed guidance for 2024. As your reliable banking partner, we look forward to providing counsel and helping decision-makers manage their businesses with confidence. At HTLF, we've created the Financial Feed to provide our market with valuable insights on the future of finance. We hope these findings help you conquer potential challenges and capitalize on opportunities.

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HTLF Bank is MEMBER FDIC and  EQUAL HOUSING LENDER

A Message from Andres Garcia

Banking partners you can count on to help you achieve growth goals

New Mexico's economy – traditionally supported by federal and state government, such as the national laboratories and state universities —has had another boost from private big tech helping it chug through recent inflationary trends.

Amazon has several centers around the Albuquerque metro area and Meta (Facebook) has a data center south of the city in Los Lunas.

While the giant tech corporations usually rely on national or multinational banks, Andres Garcia, President and CEO of New Mexico Bank & Trust, a division of HTLF Bank, said commercial and industrial businesses supporting those operations are among the bank's clients. The commercial mix for the bank, which has more than 20 state-wide locations, also includes some agriculture and service businesses.

With roots statewide, the bank strives to provide large-bank capabilities under a community bank model prioritizing partnerships over transactions.

One of those large-bank advantages recently helped a client avoid what could have been a \$40,000 loss from a fraud attack (more about that further down).

MARKET ADVANTAGES

Along with business growth opportunities, Garcia said the employment provided by new tech growth and government spending has created a steady demand for affordable homes in the state, particularly along the Los Alamos, Santa Fe and Albuquerque corridor, despite rising interest rates.

“We’re pouring a lot of cement. We’re building a lot of walls. It keeps a lot of people busy and employed.”

Andres Garcia
President & CEO



“Demand for that housing is surprising still,” he said. “Especially when you’re looking at probably the highest mortgage rate environment that we’ve had, at least in my banking career of more than 18 years. We continue to have houses being built and then sell at a pretty quick tick when they are in the right kind of price range.”

A drop in interest rates would help homebuilders and associated contractors, but “they’re still building a lot of homes,” Garcia said.

The Amazon and Meta plants also support area contracting businesses and the federal government has also created more infrastructure in the last year.

“We’re pouring a lot of cement. We’re building a lot of walls. It keeps a lot of people busy and employed,” he said.

MARKET CHALLENGES

Like businesses in other states, inflation has forced New Mexico companies to manage their budgets more efficiently.

“Our economy is really fragile right now with a lot of volatility and competition,” Garcia said.

Garcia is concerned about dependence on government projects if budgets were cut to rein in spending due to inflation. When public funds get squeezed, private enterprises may have to scramble to replace revenue.

“New Mexico depends on our state and federal governments as a pass through for a lot of our employees here. But how long will that ride out?” he said.

New Mexico's high gross receipts taxes also hinder business attraction without offsets like tax breaks, he said.

“We have local business relationships across all business segments. We have relationship managers who are boots on the ground here in New Mexico. You know, one-to-one, elbow-to-elbow.”

- Andres Garcia, President & CEO

WHAT YOU CAN DO

To stay resilient, companies must plan for best and worst-case scenarios, such as higher borrowing expenses or cash-flow difficulties, Garcia said.

“How long can they digest this heightened interest-rate environment? What are they doing to manage their liquidity?” he said.

While many indicators suggest interest rates will be flat or dip slightly in 2024, an international crisis could change that outlook, he said.

He recommends business owners examine their receivables/payables cycles for efficiencies. And leverage available technology, like business credit cards to hold onto cash longer.

HOW WE CAN HELP

The Bank’s Commercial Card allows 55 days between purchase and payment, allowing businesses to keep their cash deposited in a higher-yield account.

“The cash cycle is the key to success in a challenging economy,” he said.

One client, a paper manufacturer, had changed management from one generation to the next and the bank was able to move \$20 million in payables from checks to a card.

“They were cutting checks every week and those will essentially be cashed in three-to-five days,” Garcia said. The transition meant they got 55-days of float and reduced transaction charges. The bank was also able to divide the deposits and put part of the cash into a money market account paying 4 percent. “That was a huge win and a differentiator for us,” Garcia said.

Banking with a community bank also means customers know their bankers.

“We have local business relationships across all business segments. We have relationship managers who are boots on the ground here in New Mexico. You know, one-to-one, elbow-to-elbow,” Garcia said.

The bank can help evaluate business plans for financial fitness and offers an annual review for clients. “It’s valuable for the client, but it’s equally valuable for us.”

Those reviews help banks serve their clients better and help insulate clients in a highly competitive business environment, he said.

Close banking relationships, Commercial Card and Treasury Management can also help small-and medium-size businesses stay ahead of fraud.

“We’ve had an uptick in fraud in New Mexico,” Garcia said, adding that fraudsters prey on small-and medium-size businesses.

Often because of those close-working relationships, businesses will pick up the phone and call if they suspect someone is impersonating their bank.

The Commercial Card is safer than checks if customers carefully monitor charges and report fraud within the required window of time.

But for businesses still using checks, there’s Positive Pay.

Positive Pay allows customers to review account numbers, check amounts and payee names before the bank pays the check.

One customer saw immediate benefits after switching to Positive Pay.

Within days they had a check stolen but caught it because of the fraud management tool.

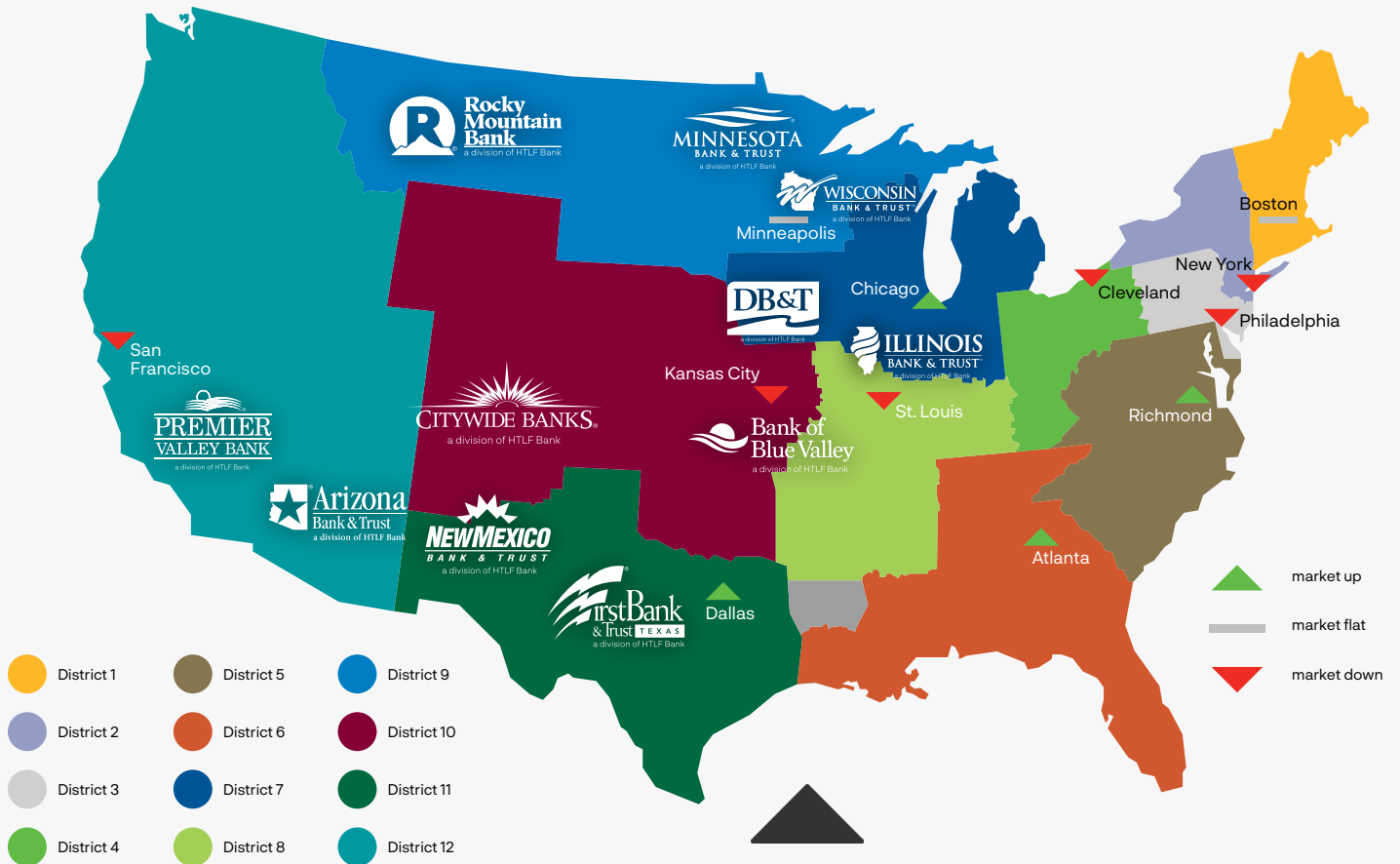
“It saved them \$40,000. You know to a smaller business \$40,000 is someone’s salary. I think we made a client for life,” Garcia said. ▲

National Economic Activity

From the Federal Reserve Bank's Beige Book

Commonly known as the Beige Book, this report is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts and other sources. The Beige Book summarizes this information by District and sector. An overall summary of the twelve district reports is prepared by a designated Federal Reserve Bank on a rotating basis.

ECONOMIC ACTIVITY WITHIN THE Federal Reserve Districts



On balance, economic activity slowed since October, with four Districts reporting modest growth, two indicating conditions were flat to slightly down, and six noting slight declines in activity.

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OVERALL ECONOMIC ACTIVITY

Retail sales, including autos, remained mixed; sales of discretionary items and durable goods, like furniture and appliances, declined, on average, as consumers showed more price sensitivity. Travel and tourism activity was generally healthy. Demand for transportation services was sluggish. Manufacturing activity was mixed, and manufacturers' outlooks weakened. Demand for business loans decreased slightly, particularly real estate loans. Consumer credit remained fairly healthy, but some banks noted a slight uptick in consumer delinquencies. Agriculture conditions were steady to slightly up as farmers reported higher selling prices; yields were mixed. Commercial real estate activity continued to slow; the office segment remained weak and multifamily activity softened. Several Districts noted a slight decrease in residential sales and higher inventories of available homes. The economic outlook for the next six to twelve months diminished over the reporting period.

LABOR MARKETS

Demand for labor continued to ease, as most Districts reported flat to modest increases in overall employment. The majority of Districts reported that more applicants were available, and several noted that retention improved as well. Reductions in headcounts through layoffs or attrition were reported, and some employers felt comfortable letting go low performers. However, several Districts continued to describe labor markets as tight with skilled workers in short supply. Wage growth remained modest to moderate in most Districts, as many described easing in wage pressures and several reported declines in starting wages. Some wage pressures did persist, however, and there were some reports of continued difficulty attracting and retaining high performers and workers with specialized skills.

▲ **The majority of Districts reported that more applicants were available, and several noted that retention improved as well.**

PRICES

Price increases largely moderated across Districts, though prices remained elevated. Freight and shipping costs decreased for many, while the cost of various food products increased. Several noted that costs for construction inputs like steel and lumber had stabilized or even declined. Rising utilities and insurance costs were notable across Districts. Pricing power varied, with services providers finding it easier to pass through increases than manufacturers. Two Districts cited increased cost of debt as an impediment to business growth. Most Districts expect moderate price increases to continue into next year. ▲

▲
Most Districts expect moderate price increases to continue into next year.

Source: [The Federal Reserve's Beige Book](#)

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Outlook Across the 10th District

Previous softened economic activity leads to uncertainty

Economic activity in the Tenth District declined slightly in recent weeks. Consumers were increasingly likely to “share a roof and share meals” to manage household budget challenges. Demand for rental housing reportedly shifted away from single-bedroom units toward multi-bedroom housing where rent expenses could be shared with a roommate. Similarly, restaurateurs noted that revenues fell as more customers split dishes and eschewed expensive items. Manufacturing businesses reported little change in activity, though some contacts noted a decline in their expectations of demand over the medium term. Reports of planned capital expenditures were mixed depending on how directly businesses were supported by fiscal spending and municipal projects. Renewable energy activity in the Tenth District continued to expand at a moderate pace, driven by modest growth in wind generation and robust growth in solar installations. The outlook for renewable energy remained positive, but contacts noted skilled labor shortages and limitations on interregional electricity transmission as challenges. The agricultural economy and farm credit conditions in the District softened moderately.

▲ New Mexico is part of the 10th District of the Federal Reserve Bank.

LABOR MARKETS

Labor conditions in the Tenth District remained mostly unchanged over the past month. Hiring activity in the service sector was mixed across segments. Transportation contacts reported robust employment growth while most hotel contacts reported contractions in employment. Most contacts expected to increase hiring or maintain the size their workforce over the next year, citing expected sales growth, overworked staff, and an ongoing need for workers with specific skills. Few businesses laid off workers, but many contacts reported reducing their workforce through natural attrition.

To build a skilled workforce, contacts noted raising wages for new hires, upskilling less-qualified workers, and making increased efforts to

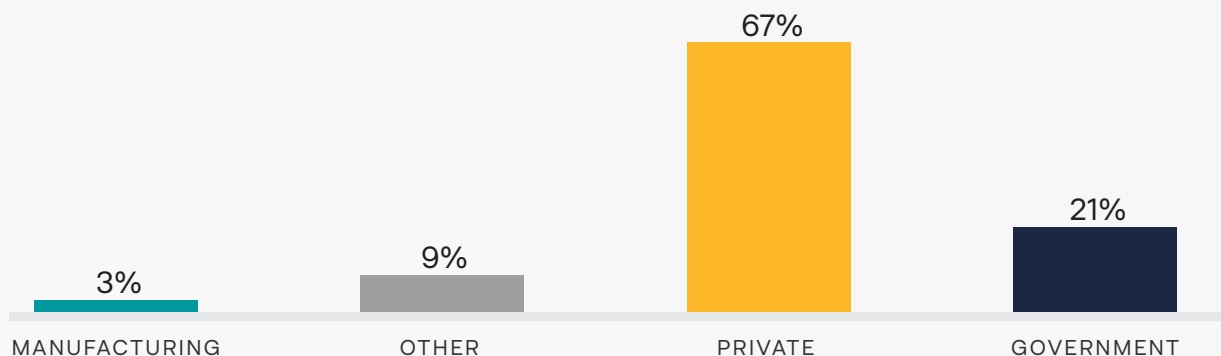
retain existing employees. Wages continued to grow at a moderate pace. Contacts highlighted raising wages as central to their retention of existing employees and attracting new hires over the past few years. However, some contacts noted an increased number of potential hires have refused the compensation packages offered, indicative of ongoing tightness in the labor market.

NEW MEXICO Employment Growth Rates

12-month percentage change, not seasonally adjusted

CONTINUED ON PAGE 8

Source: [FDIC State Profile](#)



PRICES

Prices grew at a moderate pace. While manufacturing contacts witnessed a moderation in price pressures, service firms are still facing higher prices due to tight labor market conditions. Most firms reported plans to raise prices in coming months. Contacts reported concerns about risks of higher commodity and energy prices. While higher interest rates are raising financing costs for some companies, most District firms reported a majority of their funding coming from cash financing, insulating many District firms from the higher rate environment.

CONSUMER SPENDING

Consumer spending declined slightly in recent weeks. Contacts suggested consumers were increasingly likely to “share a roof and share meals” to manage household budget challenges. Specifically, contacts in multifamily housing reported demand for single-bedroom units softened, shifting toward demand for multiple bedrooms as more renters sought to share rent expenses with roommates. Restaurant owners similarly reported that, while patronage was steady, revenues fell as more customers shared plates and avoided higher cost items. Leisure travelers accounted for a smaller share of hotel stays.

MANUFACTURING AND OTHER BUSINESS ACTIVITY

Overall business activity declined slightly last month. Contacts in retail and tourism reported moderate declines in sales and revenues. Hoteliers reported occupancy levels remained steady but noted an increase in stays related to business travel. This shift in traveler type raised some concerns regarding future demand, as

business travelers are reportedly more sensitive to price and business cycle fluctuations. Contacts in healthcare reported a somewhat lower outlook for use of services through the end of year. With greater enrollment in high-deductible health insurance plans in 2023, more households have yet to meet their deductible despite being late in the year and may forgo care requiring out-of-pocket payment. Manufacturing businesses reported little change in activity, though some contacts noted a decline in their expectations of demand over the medium term. Planned capital spending was mixed across segments with manufacturers reporting softening investment activity. Contacts noted the emergence of a firm-specific dichotomy whereby businesses that obtained government or defense contracts are fueling the majority of capital expenditure activity.

REAL ESTATE AND CONSTRUCTION

Several developers and construction managers reported raw materials costs stabilized recently. They also noted greater ability to push against escalating costs from subcontractors. Public sector funding for municipal projects sustained demand for building materials, somewhat supporting materials prices. Contacts indicated that subcontractors were becoming more available for work, with holes in their backlog schedules for the first time in several years. Though construction labor was somewhat more available, growth in labor costs remain elevated.

CONTINUED ON PAGE 9

The payments landscape is changing.

With 73% of companies transitioning from paper checks to electronic payments¹, now is the time to make the switch from outdated, costly and time-consuming payment methods.



¹2022 Association for Financial Professionals
Payments Cost Benchmarking Survey

Scan here to learn more about the
Commercial One Card or stop by one
of our banking centers.



REAL ESTATE AND CONSTRUCTION

Several developers and construction managers reported raw materials costs stabilized recently. They also noted greater ability to push against escalating costs from subcontractors. Public sector funding for municipal projects sustained demand for building materials, somewhat supporting materials prices. Contacts indicated that subcontractors were becoming more available for work, with holes in their backlog schedules for the first time in several years. Though construction labor was somewhat more available, growth in labor costs remain elevated.

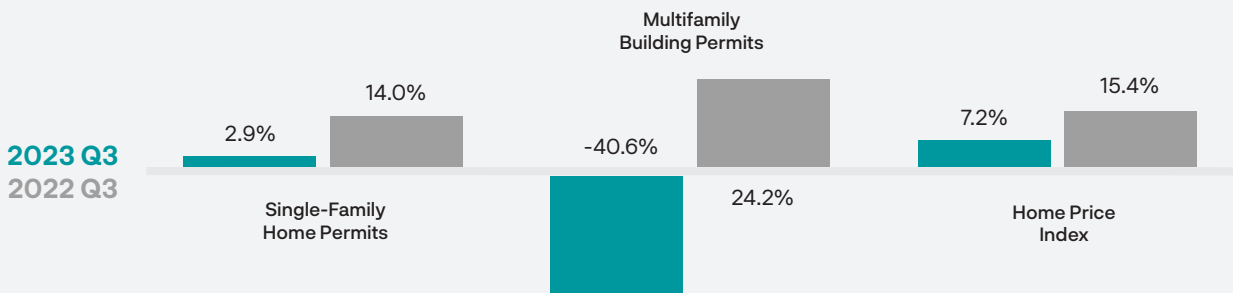
▲ Several developers and construction managers reported raw materials costs stabilized recently.

NEW MEXICO

Other Economic Indicators

(not seasonally adjusted)

Source: [FDIC State Profile](#)



ENERGY

Renewable energy activity in the Tenth District continued to grow at a moderate pace, driven by modest growth in wind generation and robust growth in solar installations.

Expectations were for a continued moderate pace of growth going into next year, driven mostly by wind generation. While growth in renewable energy in the District is expected to be slightly behind the U.S., New Mexico and New Mexico are slated to outpace the U.S. average in coming months. Contacts in the renewable energy sector highlighted acute skilled labor shortages and limitations on interregional electricity transmission as

key challenges. While higher interest rates are adding to the renewable development costs, most of those higher costs are being passed onto consumers in the form of higher electricity rates. Contacts highlighted the significant boost to renewable development activity expected in the coming years from fiscal stimulus spending, equating that spending to “throwing gasoline on an already raging fire.” ▲

Source: [The Federal Reserve's Beige Book](#)

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Outlook Across the 11th District

Previous softened economic activity leads to uncertainty

The Eleventh District economy expanded at slower pace than in the previous reporting period.

Manufacturing output rose, while growth in services stalled out and retail sales fell. Loan volumes declined at a faster rate than the previous reporting period as credit conditions remained tight and the cost of credit high. Home sales decreased, and activity in the energy sector was flat to up. Recent rains somewhat improved district agricultural conditions. Local nonprofits continued to cite broad based increases in demand for assistance. Employment was little changed, and wage growth continued to normalize. Input cost and selling price growth were above average in the service sector but modest to slight in manufacturing, construction, and energy. Outlooks remained negative with geopolitical instability, heightened macroeconomic uncertainty, and the high cost of credit cited as key headwinds.

▲ New Mexico is part of the 11th District of the Federal Reserve Bank.

LABOR MARKETS

Employment expanded slightly over the past six weeks. The pace of hiring decelerated broadly, and some freight carriers, high-tech, and manufacturing companies reported layoffs. A few service firms said they were keeping staff on payrolls despite a notable drop in sales, though one respondent said they plan to cut salaries in early 2024 to avoid layoffs. Labor availability improved and reports of labor shortages were less prevalent. One staffing firm said they were more comfortable letting unproductive workers go since they felt more confident about replacing them. However, shortages of engineers, restaurant workers, and specialty construction labor persisted.

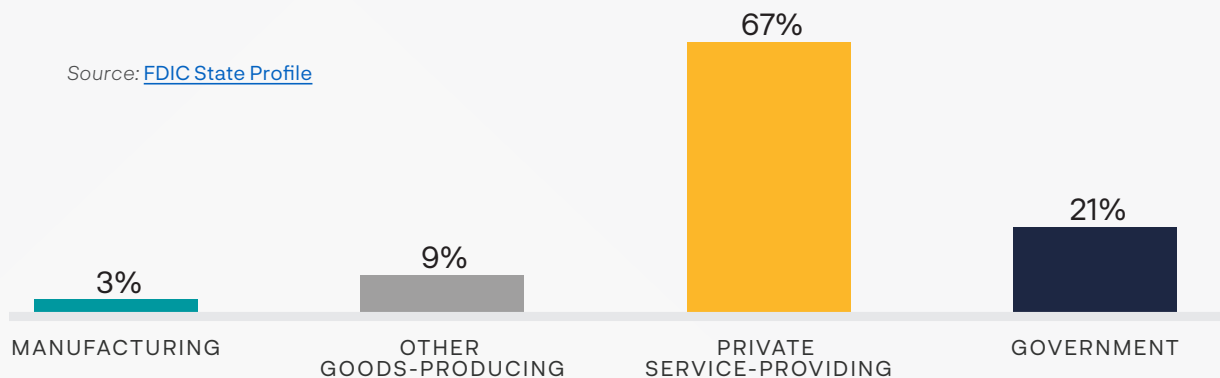
Wage growth continued to normalize, though it was still slightly elevated. Homebuilders noted some reprieve in labor costs, and energy companies

said wage growth was slowing with pressures limited to select job categories. However, a fabricated metal manufacturer reported paying workers for 40 hours/week though the firm did not have enough work to keep them busy. Most staffing firms saw continued upward wage pressures, though one contact anticipates some easing in the first half of 2024 as hiring is expected to slow.

NEW MEXICO
Employment Growth Rates

CONTINUED ON PAGE 11

12-month percentage change, not seasonally adjusted



PRICES

Input cost and selling price growth was mixed, still slightly elevated in the service sector but generally modest in construction, manufacturing, and energy.

Growth in airfares eased amid increased capacity, and fuel costs ticked up. Construction materials, home, and land prices were mostly unchanged but elevated. Freight shipping rates fell, and a transportation firm reported that companies were signing longer-term freight contracts due to low rates. Numerous firms cited higher borrowing costs as an impediment to business growth.

RETAIL SALES

Retail sales declined during the reporting period. Some retailers attributed the weakness in spending to elevated economic uncertainty and high interest rates. Reduced affordability resulting from higher car prices and interest rates also depressed auto sales over the past six weeks. Overall, retail inventories dipped for the first time since mid-2022, and outlooks remained negative.

MANUFACTURING

Texas manufacturing activity expanded modestly in October. In durables, production increases were led by fabricated metals and machinery manufacturing. However, output in transportation equipment manufacturing declined, and a contact noted that the UAW strike somewhat hurt sales. Output rose in nondurable manufacturing. Chemical production was mixed, and refinery activity decreased. Overall, manufacturing outlooks worsened, and uncertainty remained elevated with several contacts citing geopolitical instability and high interest rates as headwinds.

AGRICULTURE

Recent rainfall improved soil moisture over the past six weeks, though much of the District remained in drought. Crop production was substantially higher this year across the board—wheat, cotton, corn, sorghum, and soybeans—largely due to drought conditions being less severe than last year, particularly in the Texas panhandle. Cattle prices declined over the reporting period but remained elevated, and contacts noted a continued tight supply of cattle and resilient demand for beef amid high prices.

REAL ESTATE AND CONSTRUCTION

Housing demand weakened during the reporting period. Home sales and buyer traffic fell while cancellations rose, and contacts pointed to higher mortgage rates as the key factor impacting activity. Buyer incentives including rate buydowns and discounting remained widespread, and there were reports of additional incentives being offered to discourage buyers from cancelling contracts. Outlooks were weak and contacts noted reduced affordability, high mortgage rates, and tighter lending for construction and development loans as headwinds.

Activity in commercial real estate softened. Apartment leasing slowed and rents were flat to down. Office leasing remained minimal; vacancy rates were high, and concessions remained generous. With new supply outpacing demand, industrial vacancy rates ticked up and rent growth cooled. Heightened macroeconomic uncertainty, high capital costs, and diminished appetite to lend continued to deter investment across property types.

ENERGY

Oil field activity was flat to up over the past six weeks. The recent spate of mergers and acquisitions continued to put slight downward pressure on activity levels. Orders for oilfield services equipment were stable as customers limited spending to maintaining current capacity. In 2024, capital expenditure growth in oil and gas production is anticipated to be concentrated in international offshore drilling, with only modest increases expected in U.S. production-related work.

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NONFINANCIAL SERVICES

Service sector activity held steady during the reporting period.

Overall, revenues were flat on net, with numerous firms pointing to heightened macroeconomic and geopolitical uncertainty and high interest rates as factors impacting demand. Revenues were flat to down in several industries, including transportation and warehousing and professional and business services but rose in healthcare. Leisure and hospitality firms said revenues continued to soften partly due to slower consumer spending and high economic uncertainty, and one contact said their expansion plans were on hold until year end 2024. Staffing firms cited a slowdown in demand for their services, as demand for

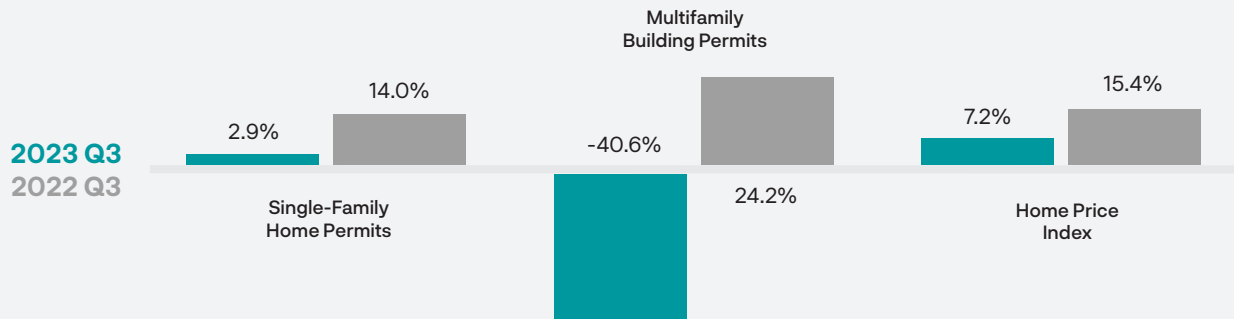
high-skilled workers weakened while placements for support staff and low-skilled workers remained stable. Airlines saw strong activity. Domestic leisure travel activity cooled, but international leisure travel stayed strong. Business travel was stable but trailed pre-pandemic levels. ▲

NEW MEXICO

Other Economic Indicators

(not seasonally adjusted)

Source: [FDIC State Profile](#)



Source: [The Federal Reserve's Beige Book](#)

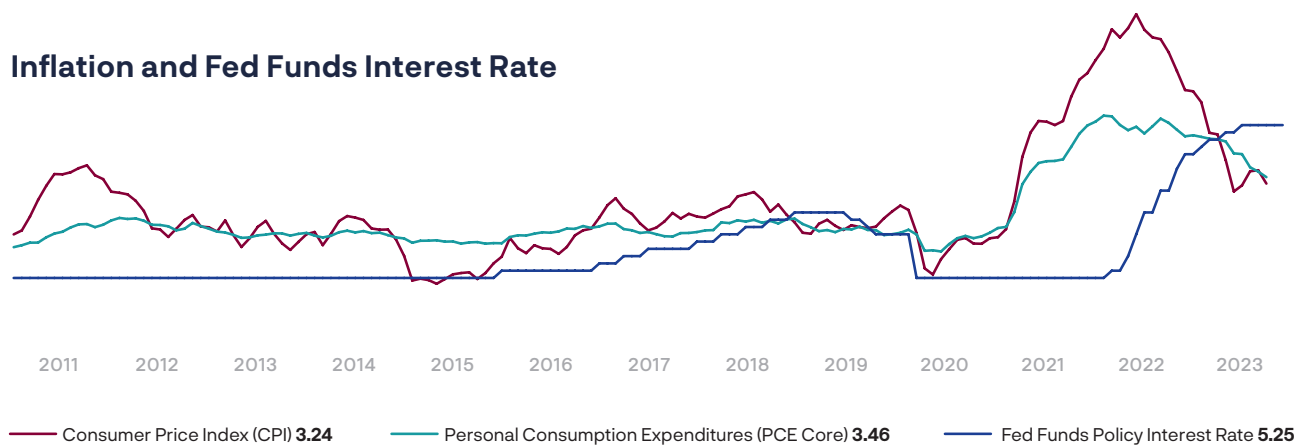
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The Recession of 2024 Might Surprise Everyone

PAUL DICKSON, DIRECTOR OF RESEARCH, VP

A year ago, a headline “The Recession of 2023 might surprise everyone” would have been prescient simply because it didn’t happen. On the contrary, last year showed surprising resilience and a pace of growth no one expected, despite forecasts of a slowdown or recession by most economists. 2023 was supposed to have been the year in which the economy succumbed to the sharpest increase in interest rates in four decades; tightening lending standards by the banks; and the end of pandemic-era government spending. Accumulated savings from Covid-related shutdowns and receipts of stimulus checks were expected to have run out well before the end of the year helping foment a recession. This did not happen in 2023, but chances seem higher for 2024.

Inflation and Fed Funds Interest Rate



THE FEDERAL RESERVE’S FINALE

At December’s Federal Reserve Open Market Committee (FOMC) meeting the members indicated that the cycle of rate hikes has ended.

Most of us opined that the policy interest rate (Fed Funds) will be cut several times through the course of the year. It appears (see Inflation and Funds Interest Rate graph) that inflation is on a path to the Fed’s 2% target, fulfilling the first part of its “stable prices and full employment” mandate. The challenges to achieving that goal are the tight labor market, persistent and surprising housing inflation, and economic activity being bolstered by an unanticipated boom in investment.

CONTINUED ON PAGE 14

Accumulated savings from Covid-related shutdowns and receipts of stimulus checks were expected to have run out well before the end of the year helping foment a recession. This did not happen in 2023, but chances seem higher for 2024.

LOOKING FOR SLACK IN THE LABOR MARKET

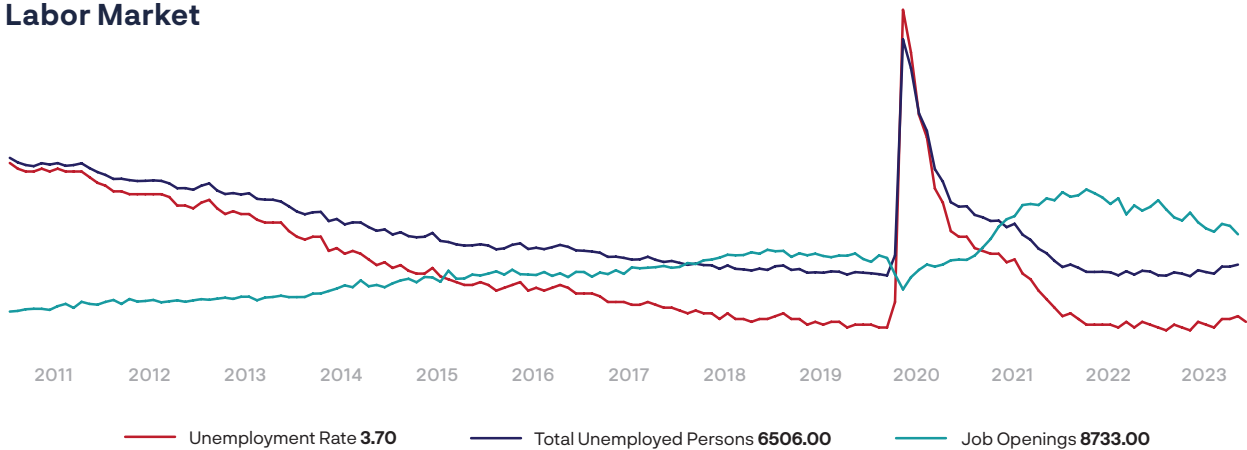
The unemployment rate hit a 50-year low at the end of 2022.

At the same time, the number of job openings skyrocketed to double that of the unemployed. This data and mounting labor action sparked worries of a wage-price spiral akin to those of the 1970s. Job openings have declined but remain historically high compared to the number of jobless and the unemployment rate remains near all-time lows and at levels once deemed unlikely. Having succeeded in the second part of its dual mandate — full employment — the Fed wants more slack to feel comfortable.

CONTINUED ON PAGE 15

Job openings have declined but remain historically high compared to the number of jobless and the unemployment rate remains near all-time lows and at levels once deemed unlikely.

Labor Market



Paul Dickson, Director of Research, VP, joined HTLF in 2012 and brings over 20 years of industry experience with him. His specific area of expertise is fixed income investing and he assists with global economic and risk analysis. Paul was previously the head of JP Morgan Asset Management’s Emerging Markets Fixed Income team managing \$6 billion in assets. Prior to that, he was a senior bond strategist at Lehman Brothers and was a founding member of Chase Manhattan Bank’s first Emerging Markets Research Group. He holds dual master’s degrees in Economics and International Studies from Johns Hopkins School of International Studies in Washington, D.C.



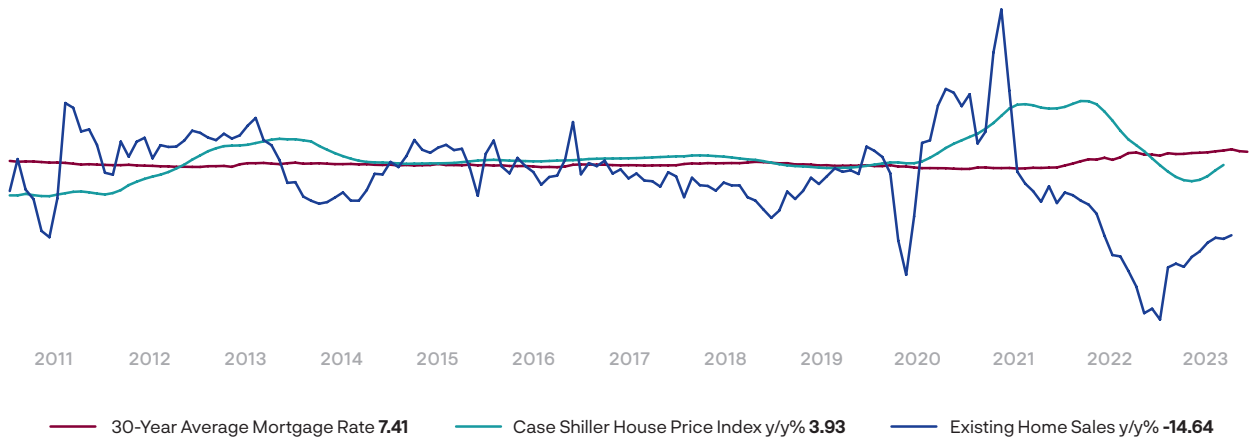
Paul Dickson
Director of Research, VP

HOUSING DILEMMA

Inflation measures have been skewed higher due to the tight housing market. Representing more than a third of the inflation indices, housing or shelter prices play a dominant role. Measured by surveys rather than transactions, the slowdown in home sale volume and the decline in actual sales pricing is not captured. Instead, the persistent housing shortage, estimated to be near 4 million units, has led to an overestimation of value by people surveyed. The Federal Reserve had hoped that a rise in mortgage rates would set off a decline in home prices due to a lack of affordability. Paradoxically, the rise in mortgage rates has led to a decline in home availability, because those who enjoy low mortgage rates are less likely to sell. This has supported higher prices, rather than lower ones. Recently, Fed officials have noted this issue publicly and a “Supercore” inflation index that excludes housing in addition to food and energy has become popular as it may show a better metric.

The Federal Reserve had hoped that a rise in mortgage rates would set off a decline in home prices due to a lack of affordability. Paradoxically, the rise in mortgage rates has led to a decline in home availability, because those who enjoy low mortgage rates are less likely to sell.

Housing Market



SPENDING AND INVESTMENT

Economic policies such as the Infrastructure Investment and Jobs Act, CHIPS and Science Act, and the Inflation Reduction Act have heightened spending and investment by the government directly and incentivized private industry to do so as well. These have contributed to an economy already buoyed by robust consumer spending and helped forestall the expected slowdown over the past year.

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THE OUTLOOK FOR 2024

Expectations from the start of 2023 are repeating themselves for 2024. The bond market is pricing a series of interest rate cuts starting in the Spring on the belief that inflation will continue to fall towards the Fed's target of 2% and implying that those cuts will be necessary as the economy flirts with recession. There have been studies suggesting that the Covid-era savings have been depleted among lower income households and soon will be for everyone else. Credit card balances have risen significantly. This coincides with a significant rise in payment delinquencies for credit cards, auto loans, and mortgages. The recent resumption in student loan payments adds another source of stress for millions of consumers. Higher mortgage rates have slowed home sales, and this will dampen activity in many related sectors from construction to household appliances. The commercial property sector has not recovered from Covid-era work transitions and is under pressure from higher interest rates, lower valuations, and more limited prospects. Private credit markets, undermined by higher interest rates, may be hiding vulnerabilities so far undetected. These developments imply a more fragile economy in the coming year and a growing likelihood of recession.

The bond market is pricing a series of interest rate cuts starting in the Spring on the belief that inflation will continue to fall towards the Fed's target of 2% and implying that those cuts will be necessary as the economy flirts with recession.

The Federal Reserve has significant room to cut interest rates to counteract a sharper than expected economic decline. Timed right, a soft landing could still take place even if the bad news outweighs the good.

Standing in opposition to a recessionary outcome is an economy starting from a reasonably strong position. Unemployment remains near a multi-decade low and a small rise, while unfortunate for those put out of work, would be more in line with historic norms. A softening of this tight labor market would be a relief for policymakers, and many firms still need to fill vacant positions. In aggregate, consumer balance sheets are in good shape with debt to disposable income being in line with historic norms. Rising credit card debt is far from being worrisome so consumers have significant borrowing capacity. Most of the banking sector is in good shape and the systemic problems that led to the Global Financial Crisis of 15 years ago are not apparent. House prices might come down in some markets, but with a housing shortage still generally present, a serious downward spiral is improbable. Finally, the Federal Reserve has significant room to cut interest rates to counteract a sharper than expected economic decline. Timed right, a soft landing could still take place even if the bad news outweighs the good.

On balance, a mild recession in the second half of the year seems likely. But the title of this article could also prove prescient when one fails to occur. ▲

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FRAUD

Trends and Best Practices

Fraud continues to be a challenge for many organizations. According to the 2023 Association for Financial Professionals, 65 percent of organizations report that they continue to be targets of fraud. And as the payments landscape continues to evolve, fraudsters are evolving their tactics too.

Targets of Payments Fraud

Check issuing continues to decline as the number of organizations using digital payments increases. The mass adoption of digital payments is partly due to the remote work environment. Electronic payment usage increases may also be the reason there has been an uptick in ACH fraud. However, checks continue to be the primary target for fraudsters.



63%
CHECKS



36%
CREDIT CARDS



31%
WIRE TRANSFERS



30%
ACH DEBITS



30%
ACH CREDITS

Integrated Payables

One payment solution for all payment types

Integrated Payables is truly the complete commercial payments solution for all payment types, and it benefits both you and your vendors. Build better relationships with them, and give valuable time back to your employees so they can better focus their efforts on the success of the business.



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Leading Source of Fraud: Business Email Compromise

Fraudsters continue to exploit businesses via business email compromise (or "BEC") with 71% of organizations experiencing these fraud attempts or attacks. Although this is an increase from 68% in 2021, the study found that this year, fewer, smaller organizations were targets of BEC fraud. This may suggest that the implementation of controls and measures organizations have taken to mitigate fraud have been successful.

BEC is a scam targeting business' payment processes. Essentially, a fraudster takes over valid business email accounts through social engineering or computer intrusion techniques to process or initiate unauthorized transfers of funds. The individual responsible for processing payments is tricked into thinking the request is valid, coming from a company leader, partner or third-party vendor, and processes the payment.

Payment Methods Impacted by BEC



45%
WIRE TRANSFERS



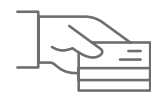
34%
ACH CREDITS



26%
ACH DEBITS



16%
CHECKS



8%
CREDIT CARDS

BETTER PROTECT YOUR BUSINESS

Safeguarding your assets begins with awareness and recognizing that prevention is an ongoing critical business strategy. Fraudsters are always searching for new schemes to capture funds from their victims. When they plan their attacks, they are looking for vulnerabilities in an organization's payment controls and processes. There are several steps a business can take to mitigate fraud and avoid potential financial losses.



Best Practices to Fight Fraud

CONDUCT ONGOING EMPLOYEE TRAINING

Employees are the gatekeepers of your organization. With proper training, they can more effectively safeguard your financials. AP/AR departments are often in the fraudster's crosshairs, so training and following strong policies in those departments are particularly crucial.

Possible training topics include:

- ▶ Defining fraud and the consequences
- ▶ Presenting examples of fraud the company may be exposed to
- ▶ Reviewing policies/controls to prevent internal and external fraud
- ▶ Practicing recognizing fraud indicators and red flags
- ▶ Reviewing the steps to report suspected and actual fraud

REVIEW INTERNAL CONTROLS AND PROCEDURES

Strengthening internal controls and procedures is the greatest fraud deterrent.

Below are a few controls/procedures to consider:

- ▶ Establish a limit per account and/or employee
- ▶ Separate responsibilities to establish checks and balances
- ▶ Require approval on all payments
- ▶ Set limits based on payment history
- ▶ Reconcile activity daily to identify suspicious payments, giving the company the opportunity to stop and/or recover fraudulent payments

IMPLEMENT VERIFICATION PROCESSES

Additional verification before submitting payment could make all the difference in identifying fraud and preventing financial loss. Implementation involves updating policies/controls and educating employees on the updated payment processes.

Consider the following:

- ▶ Changes in payment information must be verified by calling the phone number on file for the vendor
- ▶ Adding a new vendor requires approval from multiple employees
- ▶ All payments requested via phone or email must be verified by calling the phone number on file for the vendor
- ▶ Large payments should prompt for approval from management

TOOLS AND RESOURCES TO HELP FIGHT FRAUD

Strong policies, continuous employee education and accessible fraud tools and resources can help to mitigate fraud. AFP reported organizations use the following practices to help reduce fraud risk:



FIGHTING CHECK FRAUD

92%

USE CHECK POSITIVE PAY

79%

USE PAYEE POSITIVE PAY



FIGHTING ACH DEBIT FRAUD

51%

USE ACH POSITIVE PAY

79%

USE DAILY RECONCILIATION



[Download Fraud Prevention Guide](#)

Source: [Association for Financial Professionals: 2023 Payments Fraud and Control Survey Report](#)

All Pertinent Disclaimers: As with all serious financial topics or decisions, be sure to consult with a trusted financial advisor beforehand. The content here is for educational purposes only and is not meant to serve as any sort of advice or endorsement.



Contact New Mexico Bank & Trust, a division of HTLF Bank today to speak with a commercial banker. Together, we can **build a fraud prevention strategy to help protect your business** in mitigating fraud risk.

Thriving vs. Surviving?

Wise Liquidity Management Moves for Businesses in All Seasons



The economic forecast may be uncertain, but preparing for inflated rates is the smartest course of action. Liquidity management is a lot of work, but the benefits can help your business thrive rather than survive. Learn more about how you can keep your business afloat in every season.

A fluctuating economic environment, such as the one we're currently experiencing, has historically pointed toward the imminent possibility of a recession. While forecasts aren't 100% reliable, proactive leaders should prepare for economic turmoil by reimagining their company's liquidity management.

Under these economic conditions, weathering the storm is a matter of preparation. Streamlining your cash flow can build resistance against outside economic forces.

It is possible to increase your working capital without bringing in additional revenue. You simply need to increase the efficiency of your cash conversion cycle (CCC). Regardless of whether inflation persists, you'll benefit immensely from addressing stagnations within your CCC. And should a recession occur, companies with increased access to working capital will hold a significant advantage.

There are several strategic liquidity management moves you can make to shore up your company's financial health.

The following key steps can help you remain agile in a challenging environment.

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1 IMPROVE VISIBILITY ON YOUR CURRENT FINANCIAL PERFORMANCE

Your financial data provides a comprehensive overview of your CCC and empowers you to identify and address otherwise unnoticed issues. Visible treasury data enables you to leverage your internal insights to adapt more quickly—a feature that can make or break businesses in a volatile economic environment.

However, finding the right liquidity management techniques for your CCC requires a detailed understanding of your position. So, to this end, let's review some of the key terms and factors that will determine which strategic course of action is most viable for your company.

LIQUIDITY MANAGEMENT AND MEASUREMENTS

First, a quick overview of the fundamentals. A company's liquidity is measured by the ratio of assets that can be converted to cash against debts due over the next year.

Volatile markets have significant impacts on this ratio. For example, liquidation might take extended periods due to factors like supply chain backups.

Liquidity management refers to the oversight of working capital to meet a company's financial obligations and, hopefully, optimize its yields.

NET BORROWERS VS. NET INVESTORS

Net borrowers are organizations that borrow more than they lend or save. Over time, excessive debt accumulation can lead to an unmanageable burden, especially in volatile economies with rising interest rates.

Some industries necessitate operating as net borrowers. In these cases, high liquidity management is needed to meet obligations. Optimizing your CCC is critical when operating within this business framework.

Net investors, on the other hand, generate enough capital to cover their costs, making them more resistant to volatile interest rates. However, net investors aren't immune to economic challenges. CCC optimization can still protect them from market changes. Plus, shortening the cycle can yield significant returns.

CASH CONVERSION CYCLE OVERVIEW

Your cash conversion cycle is a simple calculation of how long you can bear the costs of making or providing your goods or services before you receive payment. Shorter cycles add value to a company by increasing liquidity and enjoying fewer funding requirements.

Optimizing your CCC is the process of streamlining cash flows to increase the amount of working capital your company has access to at any moment. Three essential elements form the CCC:

▶ Days Inventory Outstanding (DIO)

Days Inventory Outstanding (DIO) measures how long it takes to convert raw materials into products or services. Issues with DIO management can result in unnecessary inventory storage costs or supply chain delays.

Reducing the time frame of your DIO contributes to a lower CCC, as capital spends less time tied up in physical products. However, many companies are rethinking the just-in-time approach after manufacturing bottlenecks disrupted their operations during the Covid-19 pandemic.

▶ Days Sales Outstanding (DSO)

Days Sales Outstanding (DSO) tracks the average time you collect payments after a sale. Reducing your DSO is also advantageous because it accelerates receivables and increases the speed of your CCC.

Digital solutions that automate accounts receivable (AR) department processes can drive down time frames by increasing customer convenience and speeding up transactions.

▶ Days Payable Outstanding (DPO)

Days Payable Outstanding (DPO) describes the average amount of time it takes for your company to pay suppliers after delivery. Expanding your DPO time frames contributes to an efficient CCC by keeping working capital in your company's hands longer. Larger companies are often able to obtain extended payment terms from smaller suppliers.

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Establishing benchmarks to measure your financial performance is one of the best ways to streamline your capital management. No company can maintain viability if, in the long term, its cash inflows don't exceed its cash outflows.

2 ESTABLISH WORKING CAPITAL BENCHMARKS FOR YOUR BUSINESS

Establishing benchmarks to measure your financial performance is one of the best ways to streamline your capital management. No company can maintain viability if, in the long term, its cash inflows don't exceed its cash outflows.

In other words, there must be enough incoming capital to meet obligations. This is known as a positive cash flow. It differs from profitability, yet it's an essential metric to track. Maintaining access to working capital to fund operations is critical.

Benchmarks generally compare your industry competitors' performance against your own. The goal is to find operational lags or issues with your cash flow that could impact your long-term financial health. Because the measurement is industry-specific, you'll need to determine which metrics are meaningful to optimize your operations fully.

For instance, businesses without inventory, such as software companies, will obviously not need to track their DIO. However, because liquidity management is critical across industries, slimming down your CCC can be done by examining several cash flow key performance indicators (KPIs).

Most notably, reducing your DSO and increasing your DPO significantly shortens your CCC. As a result, you can increase your positive cash flow. However, extending your DPO too far puts your future credit terms at risk. So, if your DPO benchmark falls behind the industry standard, you should renegotiate better terms.

Of course, the other half of the equation is to set your DSO against similar industry benchmarks. If you're experiencing delays relative to these industry standards, you should investigate faster ways to collect. Or, you could perhaps offer incentives to encourage early payments.

Your company will have unique benchmarks to track and compare. An experienced banking partner can help you set and manage your cash flow KPIs.

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3 OPTIMIZE WORKING CAPITAL MANAGEMENT THROUGH TECHNOLOGY

Across different industries, companies are quickly turning to digital solutions for liquidity management and CCC optimization. The Covid-19 pandemic only accelerated the digitization of treasury management systems, as efficient remote processes became operationally critical.

Today, many companies still use manual or paper processes in their accounts payable (AP) and AR departments. Although, companies clinging to these outdated systems likely won't be able to compete with those using artificial intelligence (AI)-driven automation to increase speed, accuracy and data visibility.

Modern treasury technology is beneficial in a volatile economic environment. The comprehensive information sets generated from sophisticated digital treasury systems can provide the necessary information to compare your results with relevant industry benchmarks.

In fact, through advanced technology, you can carefully navigate an inflationary cycle with meticulous liquidity management to potentially gain a competitive edge.

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LIQUIDITY MANAGEMENT ACROSS INDUSTRIES

Of course, while treasury technology advances are ideal across sectors, your industry will largely determine the best approach to optimize your working capital management.

For instance, retail companies' most common cash flow bottleneck is the gap between inventory purchases and sales. This can be extensive, especially when gearing up for the holiday season.

Treasury technology can help solve these issues by streamlining your accounting processes and freeing up your AP department's time to focus on supplier relationships. Negotiating better terms may also help retail businesses avoid borrowing from a bank to cover costs.

On the other hand, manufacturing companies that sell goods on credit commonly experience cash outflow issues. This is because significant costs are incurred during the manufacturing process.

In response, manufacturers can use their convenient treasury technology to request payment prior to production. This can greatly reduce manufacturing CCCs and increase access to working capital.

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4 UNLOCK “TRAPPED” CASH

The ultimate effect of modern treasury management technology is to free up stagnant cash flows by empowering you with greater data visibility and benchmark tracking.

One of the most obvious negative consequences of financial data silos between departments is that it reduces the cohesion of your corporate accounting department’s communications. This results in increased errors.

Analytics are increasingly used to optimize decision-making. As a result, companies that don’t adopt a unified system that produces comprehensive data sets can easily fall behind.

Treasury technology is quickly taking over as the foremost tool for liquidity management. So, let’s see how the use of data can optimize your CCC:

► **Improving Collections:**

Accurate and up-to-date reporting on collectibles is critical for your receivables, as proactively addressing missing payments is impossible without knowing which payments are late. Technology can further assist collection efforts by automating reminders and offering predetermined incentives for early payments.

► **Increasing Float:**

Float refers to the period during which transaction processing delays result in a double count of funds. More precise automated payment times can help you optimize your incoming cash flow to accrue interest or gain time before payments are processed.

► **Improving Operational Efficiency:**

Thanks to the introduction of advanced digital treasury tools, paper or manual processing in AP or AR departments is quickly becoming a waste of time. Administrative work can be done more quickly and accurately by AI. Digital systems free your staff to work on more complex and goal-oriented issues like streamlining your CCC and reducing unnecessary expenses.

Data analytics is the future of financial decision-making, but many companies haven’t yet adopted an information-based approach. So, early system upgrades can potentially confer exceptional competitive advantages at the moment.

5 STRENGTHEN RELATIONSHIPS WITH BANKS AND BANKING PARTNERS

Strengthening your relationship with your local bank is one of the most important (yet often overlooked) preparatory measures you should take in any economic climate, but especially if hard times are predicted.

Demonstrating your proactive liquidity management and holding early discussions about potential risks can build trust. It may even yield advantages such as favorable terms, reduced interest rates, and more capital.

The experienced banking partners at your local bank branch can be sound resources when you experience cash flow issues. Your bank wants to help you reach your financial goals, so you can get personalized expert advice on your unique situation. But first, you need to reach out and brief them on your company's strategies and finances.

Your local bank's liquidity management experts can help you set your industry benchmarks and implement tracking technology to measure your performance. They can also work with you set your finances in order. This includes granting you access to capital and helping you create a smart and strategic plan for optimizing operations.

Learning how to leverage new treasury technology can be intimidating, but a local financial partner can help you through the digital transition.



CONSULT WITH AN EXPERT TO OPTIMIZE YOUR LIQUIDITY MANAGEMENT

The five steps outlined in this article—improving visibility, establishing benchmarks, optimizing working capital management, unlocking trapped cash and strengthening your relationship with your local bank—are vital responses to volatile markets. Of course, they offer significant advantages even under normal circumstances.

The business world is going digital, making manual or paper systems obsolete. Upgrading your treasury systems enables both automated increases in efficiency and data analytics. What's more, optimizing your CCC requires extensive reporting capabilities within your system, so upgrading your processes is a competitive necessity. ▲

The experts at New Mexico Bank & Trust, a division of HTLF Bank, are here to help you **increase your financial performance** by **optimizing your cash flow and increasing your access to working capital**. They can help you strategize for future uncertainties and shore up your company's financial health.



Scan here to get help strategizing for future uncertainties and shore up your company's financial health with your banking partner today!



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¹ Maintain a minimum balance of \$2,500 daily or \$5,000 average daily balance to avoid the maintenance fee. The average daily balance is calculated by adding the principal in the account for each day of the period and dividing that figure by the number of days in the period. Contact your banker for full account disclosures. Geographic Restrictions May Apply. Account Opening Subject to Approval.

² Average cost savings are calculated based on the per-item costs detailed in the Treasury Management Fee Schedule for all services included in Business Bundle Plus. Average cost savings are calculated based on the \$75.00 Business Bundle Plus fee being waived for 12 months. \$75.00 Business Bundle Plus fee can be waived for customers with an average relationship balance of \$75,000. The balance threshold tied to the bundle waiver is the average book balance of a non-interest-bearing checking account with primary account ownership. New Business Bundle Plus enrollments will not incur Business Bundle Plus fee for the initial six-month period. Customers will be responsible for all service fees after this initial period, as outlined in the service agreement. Advanced Business Checking Account or Public Funds – Advanced Business Checking Account is required to enroll in the Business Bundle Plus.



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