

## ***SUB S TEFRA Disallowance Appeal Before Seventh Circuit CBI and Other State Associations Responsible for This Continuing Effort***

On Tuesday, February 23, 2009, oral arguments were heard before the Seventh Circuit Court of Appeals in the TEFRA disallowance appeal styled *Jerome R. Vainisi, et al. v. Commissioner of Internal Revenue*. The Appellants are seeking a reversal of the U.S. Tax Court’s January 2009 decision that the 20 percent TEFRA disallowance applies to Subchapter S financial institutions in the same manner as to C corporations.

The TEFRA disallowance refers to a 20 percent reduction in the amount of a financial institution’s deductible interest expense attributable to its investments in qualified tax-exempt obligations (QTEOs). The Internal Revenue Code (the Code) generally permits all financial institutions to take annual deductions on their interest expense attributable to holding QTEOs; however, Section 291 of the Code stipulates that C corporations must reduce – or “disallow” – these deductions by 20 percent each year in which the entity claims such a deduction. This limitation contained in Section 291 is known as the TEFRA disallowance.

The *Vainisi* Appeal centers on whether Section 1363(b)(4) of the Code serves to limit the applicability of the 20 percent TEFRA disallowance to Subchapter S banks and their wholly-owned subsidiaries (QSubs) to only the first three years after they elect to be taxed under Subchapter S. The Appellants argue that it does.

The *Vainisi* Appellants, represented by Debra Koenig, a partner with the law firm of Godfrey & Kahn, P.C., argue that Section 291 of the Code in general only applies to C Only through Section 1363(b)(4) does the TEFRA disallowance extend to S corporations, but even then, it applies only for the first three taxable years after a bank elects Subchapter S.

The IRS, on the other hand, contends that Section 291 of the Code is a “special banking rule” that applies every year (as it does for C corporations) in spite of the plain language of Section 1363(b)(4) to the contrary. The IRS relies on the Tax Court’s earlier ruling that because Section 1363(b)(4) does not specifically reference QSubs, it is therefore not applicable. Illogically, this suggests that the TEFRA disallowance could potentially apply differently to a QSub bank than it would to a stand-alone S corporation bank.

Throughout the oral arguments, the Seventh Circuit appeared to agree with the *Vainisi* Appellants’ arguments, even referring at one point to the IRS’s arguments as “ridiculous conclusions.” The Court gave very little deference to the lower Tax Court’s seemingly incongruous opinion, focusing instead on the plain language of Section 1363(b)(4), which states that after three years the TEFRA disallowance should no longer apply to S corporation and QSub banks. Ms. Koenig indicated that her assessment of the strength of the *Vainisi* Appellants’ case remains strong and expressed her confidence that the taxpayers would ultimately prevail.

It is anticipated that the Seventh Circuit’s ruling will likely be in late-summer 2010, but could come as early as May. The parties’ oral arguments may be heard in their entirety on the Seventh Circuit’s website at <http://www.ca7.uscourts.gov/fdocs/docs.fwx>. The case number is 09-3314.



Bruce E. Toppin, III, is the executive director of the Subchapter S Bank Association and a partner in the law firm of Kennedy, Toppin & Sutherland, LLP.

<b>March and April Webinars</b> .....	page 2
<b>Leaders of Tomorrow Seventh Annual Spring Conference</b> .....	page 3
<b>Regulatory and Legislative Actions</b> .....	page 4
<i>Big Changes for Overdraft Services</i> .....	
<b>Successful Consumer and Commercial Collections</b> .....	page 5
<b>Our Marching Orders</b> .....	page 6
<b>“Why Would You Do That?”</b> .....	page 7
<b>Third Annual Iowa School for Branch Management</b> .....	page 8
<b>Thoughts on CFPA</b> .....	page 8
<b>More Good News</b> .....	page 9
<b>American Recovery and Reinvestment Act Funds Available</b> .....	page 10
<b>Mainstreet Economic Survey</b> .....	page 11

## March/April CBI Webinars

### BANK MANAGEMENT and OPERATIONS

- March 11, 2010 Financial Privacy and GLBA Update  
*Elizabeth Fast, Banker's Choice*
- March 16, 2010 Developing a Liquidity Contingency Plan  
*Gary J. Young, CEO, Young & Associates, Inc.*
- April 8, 2010 Wire Transfer Compliance  
*Rhonda Hudson, Compliance +*
- April 15, 2010 Regulatory Compliance for the Board and Senior Management  
*Ann Brode, Brode Consulting Services, Inc.*

### BSA

- March 23, 2010 Frontline Skillworks: Required Job-Specific BSA Training for Frontline Staff  
*Ann Brode, Brode Consulting Services, Inc.*

### DEPOSIT OPERATIONS/COMPLIANCE

- March 9, 2010 Managing and Monitoring High-Risk Customers  
*Deborah Crawford, gettechnical, inc.*
- April 6, 2010 ACH Exception Handling: Returns, Notifications of Change (NOCS) and More  
*Shelly Simpson, EPCOR*
- April 13, 2010 The Legal Aspects of Checks  
*Deborah Crawford, gettechnical, inc.*

### DIRECTORS

- March 30, 2010 Director Series: Strategic Planning in Today's Banking Reality  
*Jeff Gerrish, Gerrish, McCreary, Smith Consultants & Attorneys*
- April 15, 2010 Regulatory Compliance for the Board and Senior Management  
*Ann Brode, Brode Consulting Services, Inc.*

### FRONTLINE STAFF

- March 23, 2010 Frontline Skillworks: Required Job-Specific BSA Training for Frontline Staff  
*Ann Brode, Brode Consulting Services, Inc.*

- April 13, 2010 The Legal Aspects of Checks  
*Deborah Crawford, gettechnical, inc.*

### HUMAN RESOURCES AND TRAINING

- April 7, 2010 Training for the New Trainer  
*Taye Cairnes, Taye H. Cairnes, Inc.*

### INFORMATION TECHNOLOGY

- March 2, 2010 Social Media Networking for Bankers  
*Lee Wetherington, Strategic Insight for ProfitStars®, a division of Jack Henry & Associates, Inc.*
- April 27, 2010 Incident-Response Program Design and Implementation  
*Dr. Kevin Streff, Secure Banking Solutions*

### LOANS/COMPLIANCE

- March 4, 2010 When Do We Have a Legal Loan Application Under the Revised Reg Z and RESPA Rules?  
*Ann Brode, Brode Consulting Services, Inc.*
- March 18, 2010 Writing Policies for Loan Workouts and Collections  
*Ann Brode, Brode Consulting Services, Inc.*
- March 25, 2010 What is that Personal Tax Return Telling Me? Schedules E and F  
*Tim Harrington, TEAM Resources*
- April 20, 2010 Your Fair Lending Exam: What the Examiners Want  
*Bryan Bradley, Young & Associates, Inc.*
- April 22, 2010 Lending to Small Business  
*Elizabeth Fast, Banker's Choice*
- April 29, 2010 Agricultural Lending Update and Issues  
*Dr. David Kohl, AgriVisions, LLC*

### REGULATORS

- April 15, 2010 Regulatory Compliance for the Board and Senior Management  
*Ann Brode, Brode Consulting Services, Inc.*

## CBI Website Construction Nearing Completion

Thanks to Community Bankers of Iowa CEO and EVP Don Hole, CBI Information Specialist Pretty Patel, and ProfitStars, the unveiling of the much improved CBI website will soon take place. The new site has been specifically designed for easier navigation with four primary portals: Advocacy, Networking, Education, Services and Insurance. Additional membership information and resource links are also readily at hand on the home page.

Advertising areas have been specifically added to the home page to greater showcase our vendor members and to highlight upcoming events. If you want to find what days the Third Annual Iowa School of Branch Management will be held, use the express link to the activities calendar to find that out, along with many more of the CBI-related activities.

In the coming weeks, be sure to check out the streamlined site at [www.cbionline.org](http://www.cbionline.org) and discover just how easy it is to find the information you want.

# Leaders of Tomorrow Seventh Annual Spring Conference



simplying Leadership

Stoney Creek Inn

April 15-16

Johnston

For more information and to register online go to [www.cibaonline.org](http://www.cibaonline.org)

**Who Should Attend:** Community bankers in practically every area of the industry who want to improve overall banking knowledge and leadership skills.

**Greg Souther**



"Supervising and Managing for Results"  
Greg Souther Consulting & Seminars, Monroe, Georgia

**Chris Bauer**



"Professional Ethics: A Preventive Maintenance Approach"  
Bauer Ethics Seminars  
Nashville, Tennessee

**Bill Northey**



"Ag Facts, Iowa, and You"  
Iowa Secretary of Agriculture

**Tom Gronstal**



"Iowa Banking Update"  
Iowa Department of Banking Superintendent

**Howard Hagen**



"Iowa and the National Political Scenes"  
Dickinson, Mackaman, Tyler & Hagen P.C., Des Moines

**Dale Torpey**



**Stephanie Brown**

**JoAnn Torpey**

"WE BELIEVE IN YOU: A family's Story of Struggle and Change"  
Federation Bank, Washington

**Jeffrey Jensen**



"Bank Supervision - 2010"  
Iowa Regional Director Federal Reserve Bank of Chicago

**Tom Ezdon**



"Social Engineering: Why Trust = Trouble. Who can you trust? Some of the many ways thieves trick your employees out of information."  
LockNet, Inc., LaCrosse, Wisconsin

**"I want to make sure that we have attendees at this conference. In the past, our bankers have found this event to be of great value."**

Marketing President Steve Simon  
Two Rivers Bank & Trust  
West Des Moines

## Regulatory and Legislative Actions Mean Big Changes for Overdraft Services

Nearly a year after it proposed changes to Reg E to address overdraft services for ATM withdrawals and one-time debit card transactions, the Federal Reserve Board announced its final decision on November 12, 2009. As anticipated, the new ruling will prohibit financial institutions from charging consumers fees for paying overdrafts on these types of transactions, unless the consumer “opts in” to the service. Plus, it will require banks to provide customers with an explanation of how their overdraft program works and the fees associated with its use. This change becomes effective July 1, 2010, for new accounts and August 15, for existing accounts.

Also in 2009, the Federal Reserve announced changes to Regulation DD that requires *all* banks – whether or not they promote overdraft services – to disclose on periodic statements the aggregate dollar amount totals for “overdraft fees” and for “returned item fees,” both for the statement period and the calendar year-to-date. This change became effective January 1, 2010.

Currently, committees in both the Senate and the House of Representatives are considering legislation that would dramatically impact how overdraft programs for checking accounts are processed and set limits on usage and fees. If passed, H.R. 3904 (The Overdraft Protection Act of 2009) and Senate companion bill, S. 1799 (The Fairness and Accountability in Receiving [FAIR] Overdraft Coverage Act), will adversely affect not only the banking industry, but many customers who are already experiencing financial challenges.

### How would this legislation affect your customers?

For consumers who periodically access overdraft protection to maintain financial stability, this legislation would limit their use of the service to once per month and six times per year for checking account overdrafts. And while sponsors of the bills declare this as a way to protect consumers from abusive overdraft programs, it overlooks the consequences that the limits set in motion.

Unfortunately, as a result of this legislation, consumers will have fewer options when faced with unforeseen financial circumstances. Plus, once they have reached their overdraft protection limit, they could be faced with:

- Additional merchant penalty fees on NSF items and collection charges that are not regulated by the federal government;
- More credit card debt;
- More costly, unregulated financial services products, such as payday loans in emergencies; and
- Harm to their credit rating.

In addition, financial institutions will be forced to create new pricing scenarios to recover lost fee income. This will result in additional account holder fees, placing more burdens on families and individuals already straining to maintain financial stability.

### How do these actions affect your overdraft program?

While discussion on the Senate and House bills is ongoing, Iowa community banks should take the necessary steps now to make sure their overdraft program is in compliance with Reg DD immediately and with the new Reg E requirements before the upcoming deadlines.

If your bank has an established overdraft program in place, make sure it is compliant. Failing to do so can damage customer relationships and put your institution in jeopardy of increased regulatory scrutiny. If you are thinking of implementing an overdraft program, make sure you choose one that is 100 percent compliant with these and all regulatory requirements.

### About JMFA

*Article written by John M. Floyd, chairman and CEO of John M. Floyd & Associates (JMFA), a preferred business partner for Community Bankers of Iowa. JMFA is a profitability and performance improvement consulting firm, serving more than 2,000 financial institutions in all 50 states and Central America. As a direct result of its programs, JMFA has helped thousands of clients dramatically improve their performance and their bottom line. For more information, contact Ron Goffman, JMFA regional director, at [Ron.Goffman@JMFA.com](mailto:Ron.Goffman@JMFA.com) or (877) 843-8611.*



## Do You Know Where This Community Bankers of Iowa Bank is Located?

**Answer:**

*and CEO Barry Smith, Clive Peoples Trust & Savings Bank, President*

# Successful Consumer and Commercial Collections



*Greg Souther  
Greg Souther Consulting  
& Seminars  
Monroe, Georgia*

CBI Conference Center

April 14, 2010

Register at [www.cbionline.org](http://www.cbionline.org)

**2009 will be remembered as a tough collection year... unless you prepare now**

We understand that managing collection efforts during a difficult market requires strong collection skills and knowledge of what you can and cannot do when contacting and negotiating payment with your customers. Additionally, identifying loans before they become delinquent also requires the staff to have the necessary systems and processes in place that will help them identify the suspect delinquent customers and accounts.

Objectives of this one-day program:

- Get the customer to give you complete application information up front
- Motivate the customer to pay in full with one call
- Send effective letters and when not to send letters – FACTA REG V Compliance
- Handle irate customers, resolve disputes, and negotiate for higher payments
- Reduce the number of customers filing bankruptcy
- Learn the real reason they are not paying you
- Uncover and prevent application fraud/many of your skips are actually fraud
- Establish sound credit and collection procedures that everyone can follow
- Use the court systems and legal action to collect your money
- Find overlooked sources of money and work-outs
- Use credit reports as an invaluable collection tool
- Select the right collection agency or attorney
- Using the WEB as a great skip tracing tool
- Developing Phone Scripts and Role Play – *New*
- Reporting the banks past due customers through Metro2 and E-OSCAR-FACTA Requirements

*Includes: Fair Credit Reporting Act (FCRA)/Fair and Accurate Credit Transaction Act (FACTA) and Fair Debt Collection Practices Act (FDCPA) Compliance*



Cam Fine

## Our Marching Orders

As Senate Banking Committee members slog through negotiations to fashion a historic financial-reform bill, ICBA's community banker leadership is working to reach consensus on financial-policy issues. And rest assured, ICBA's annual process to update its governing policy resolutions is far more open, collegial and productive than Congress's legislative sausage-making will ever be.

ICBA's policy resolutions define in detail ICBA's objectives for the year ahead. While articulating ICBA's ongoing mission and purpose, our policy resolutions also set in writing ICBA's most timely and significant legislative and regulatory policy positions. They explain not only what we believe but also why. As our association's official marching orders, our policy resolutions expressly direct ICBA's advocacy efforts with Congress, the Obama administration, and the banking agencies.

To be approved by ICBA's Board of Directors during this month's National Convention, this year's draft document of ICBA's 2010 policy resolutions runs 50 pages. It comprises 44 resolutions, including 12 priority resolutions addressing financial reform and too-big-to-fail, deposit-insurance assessments, consumer regulation, bank examinations, tax and accounting rules, and the future of the Federal Home Loan Bank System.

Given the momentous decisions policymakers are grappling with, ICBA's policy resolutions are a must-read for every community banker. (Posted in the advocacy section of ICBA's Web site, they are also a good first place to turn whenever you have a question about an ICBA position. And considering the breadth and complexity of the issues they cover, I am proud of the brevity and clarity of our resolutions.)

But our policy resolutions reveal more than what ICBA and its members believe and are striving for. How ICBA discusses, updates, votes, and then acts on our policy resolutions every year reflects democratic grassroots governance. That process shows the broad-base consensus of thousands of community bankers upon which ICBA acts.

ICBA's policy resolutions are first reviewed and updated by our 26-member Policy Development Committee, which includes our elected officers and all standing-committee chairmen. Once drafted and proposed by the committee, after careful consideration, the resolutions go to our 100-member board of directors (ICBA's board has banker representation from every state) for more discussion and approval in final form. The ICBA Executive Committee then ensures that the policy resolutions are followed.

More than 360 community bankers representing institutions of all sizes and charters throughout the nation serve on 25 ICBA leadership boards, committees and advisory panels. Each community banker serves either in a position openly elected by ICBA members or directly on behalf of those elected by ICBA members. Each banker is responsible for giving our association feedback on a wide range of issues and programs, including our policy resolutions. Representatives from ICBA's 44 affiliated state and regional banking associations are also included throughout our decision-making process.

In my 25 years of active involvement with ICBA, first as a leadership banker and then as ICBA's president and chief

executive, I have found that community bankers have very little trouble finding common ground. We all serve the cause of Main Street America. It is common ground that ICBA effectively promotes and defends with dedicated real-world community bankers guiding us every step of the way.

*Camden R. Fine is president and CEO of ICBA. Reach him at [cam.fine@icba.org](mailto:cam.fine@icba.org).*

## Reminder

### Check Your Vendor Agreements for Termination Terms and Dates

### Missing Notification Deadlines Can Be Expensive

Reminder provided by:

**CBSI – “helping you take more to your bank’s bottom line”**



## Reward Money Sent

### Did You Get Yours?

In February more than \$70,000 dollars was sent directly to CBI member banks participating in the CBI – **Deluxe Annual Volume Rebate Program**.

Designed specifically to help banks pay their annual CBI member dues investment, since its inception in 2003 the rebate program has sent nearly \$570,000 directly to participating association members.

Thank you Deluxe for all you do to support CBI membership.





R. Michael S.  
Menzies Sr.

## “Why Would You Do That?”

I hear this question from community bankers who have the mistaken impression that ICBA supports the Consumer Financial Protection Agency proposed in Congress’ financial regulatory-reform bills. The short, honest and important answer is – we don’t.

From the start of debate on financial regulatory reform, ICBA member leaders have made clear our position in congressional testimony, in letters to lawmakers, in op-eds, in media interviews, in talks with administration and agency leaders: Community banks do not want another agency that would only increase our regulatory burdens.

We have made it clear that the best way to protect consumers is to address the overleveraged, too-big-to-fail firms whose concentration risks have cost taxpayers more than \$7 trillion. Congress should also address the many nonbank financial institutions that are unencumbered by most forms of regulation or accountability.

We have made it clear that bank regulators have expertise in balancing safe and sound operations with the requirement to inform consumers and protect them from abusive practices. Having two agencies handle enforcement would only give each agency half the information it needs, undermining both parts of a bank’s exam.

That is the short answer. Here is the longer one: Recognizing that the winds of Washington are blowing in favor of adding consumer safeguards while making banks and other financial companies more accountable, we stayed at the negotiating table to ensure that policymakers understood the difference between Wall Street and Main Street. We did not want one-size-fits-all legislation unfairly and unnecessarily penalizing community banks.

We won crucial bipartisan support for measures that would

- Make the deposit-insurance-assessment system fairer for community banks;
- Establish tougher capital and liquidity standards on too-big-to-fail banks and ensure that they create a prepaid \$150-billion resolution fund;
- Plug the ILC loophole to maintain the separation of banking and commerce; and
- For the first time, recognize in law that large credit unions should be regulated as banks.

As a result, the House made critical improvements to its CFPA proposal. As passed, the bill would exempt banks with less than \$10 billion in assets from the CFPA’s primary exam and enforcement authority and from agency fees.

The bill also excludes the “plain-vanilla product” and “reasonableness” requirements and removes the Community Reinvestment Act from CFPA jurisdiction.

Lawmakers also agreed to have the CFPA establish a special unit to ensure that community banks are not disproportionately affected by CFPA regulations. They clarified that CFPA provisions create no new private rights of action. They pledged to repeal the exclusion of thrift deposits from the 10-percent deposit-concentration cap.

ICBA is working to avoid new regulations on community banks and to make further improvements to financial-reform

legislation. Naturally, megabanks and nonbanks that until now have had all the advantages vigorously opposed these measures and ICBA’s efforts to bring real balance to our financial-services system.

In sum, ICBA has not endorsed any final legislation. ICBA has not wavered in opposing the CFPA or other new regulatory burdens. We did choose to improve legislation as it progresses through Congress to benefit community banks.

Do not equate our unprecedented progress with any endorsement or support. We are not done yet.

*R. Michael S. Menzies Sr. is ICBA chairman and the president and CEO of Easton Bank and Trust Co. in Easton, Maryland*

**ICBA**

**2010**

**National Convention  
and Techworld®**

**ORLANDO**

**All-Iowa Reception**

**March 18, 7:00 p.m.**

**Gaylord Palms**

**Orlando, Florida**

CBI Education Committee Presents



Dianne Barton  
Founder and president of  
Performance Solutions, Inc.

## Third Annual

# Iowa School for Branch Management

May 11-12-13

CBI Conference Center

- Managing a Successful Branch
- Leading Sales and Excellence
- Developing and Maintaining a Winning Team

More information available at [www.cbionline.org](http://www.cbionline.org)

## More Good News

CBSI Expands the list of endorsed products and services from these companies to include the following:



- **Executive Compensation Institute (ECI)  
Long-Term Care Insurance**

To learn more contact: Tom Lynch, wealth coach, 800-885-2727, [tlynch@ecicompanies.com](mailto:tlynch@ecicompanies.com)



- **Secure Banking Solutions (SBS)  
All Deliverable Products and Services**

To learn more contact: Jeff Haase, VP Business Development, 605-270-9854 or [jeff@protectmybank.com](mailto:jeff@protectmybank.com)



- **Sentry Networks**

Bit9 Parity (Application Whitelisting): A network security product that, if deployed, will radically and immediately reduce your organization's level of security risk.

To learn more contact: Tom Weaver, president, 888-878-8854 or [tweaver@sentry-networks.com](mailto:tweaver@sentry-networks.com)

Due to the confidence and satisfaction expressed by CBI members in these providers, CBSI now endorses the additional products and services listed above.

Support your association and take more to your bottom line by doing business with companies endorsed by CBSI.



## Thoughts on CFPA *ICBA Chair-elect Jim MacPhee, CEO of Kalamazoo County State Bank, Schoolcraft, Michigan*

As you have read, the ICBA has NEVER supported the CFPA in its original form – ever. However, we supported the CFPA with some modifications which included: Eliminate community banks under \$10 billion in assets from CFPA examinations and eliminate community banks from any fees assessed to fund the CFPA. Both provisions are in the House version and the draft version in the Senate. Note: Essentially 95 percent of community banks would be outside of CFPA if it were passed with these amendments.

If we came out and said “Hell no, we won’t go!” and tried to battle Congress and the Administration by totally opposing the CFPA, we would be basically saying that we do not want financial institutions, big or small, shadow or unregulated, to be regulated. I know none of us believes that would be good for banking or our country. That is what got us into this mess in the first place. If you believe that the unregulated Wall Street firms and the TBTFs must be regulated or resolved, we must have some form of CFPA. That is what the ICBA has been and will continue fighting for.

Political reality is that we have an all-Democratic Congress and Administration who desperately want to protect consumers from another meltdown at all costs. If we all fight CFPA and no bill is passed, do not be naive, we will get our heads handed to us by a Congress that will unleash legislation that you will not be happy with and will include the community banks (if we opposed the original bill).

I do find it ironic that Bank of America came out publicly on Thursday and said that they now support CFPA. And why not? Bank of America has 435,000 employees and they can comply with CFPA, no skin off their backs. However, it would be a tremendous burden on community banks! If community banks were not subject to the CFPA, and the largest banks in the nation did not oppose it, why would anyone continue to oppose CFPA? The key to this entire bill is that we continue to oppose the original form, while fighting like hell to cut community banks out of it. Not that hard to get your arms around.

To those who would question why the two large banking associations are on different sides of this issue, I would simply submit that this is our position, and they chose to fight the entire CFPA bill. I do not view them as being “divisive”, and they should not cast us as being divisive or as trying to take the opposite view all the time. This is simply a different strategy and we feel this is the best course of action to bring those who created this mess under regulation while doing what is best for community banks in the long run.

If there is one thing that I have learned in my experiences in leadership at the ICBA it is this: “Common sense in the heartland is not always common sense in the beltway.” This is about politics, my friends, and we can despise the process or we can get in the game, understand our options and fight like hell for our industry realizing that we will have some victories and some defeats. Lately, we have made a lot of headway in D.C. We are viewed as the good guys in the white hats, because we are. We work everyday to maintain our position.

By the way, after the new Supreme Court decision to allow corporations to donate to PACs, Citi poured in \$15 million for their cause. I don’t know about you, but I do not want Citi speaking for me. Now realize that there are 27 financial lobbying groups in D.C. - all with their own agenda! Eleven have budgets OVER \$25 million including ICBA and the ABA. The idea of us all joining together is a fallacy. And honestly, even if the ICBA and ABA came together on the CFPA tomorrow and both opposed it in its entirety, there will be CFPA in some form. The question in the final analysis is what do you want it to look like and if we were to fight it and win, be careful what you wish for.

## Nearly \$125 Million in American Recovery and Reinvestment Act Funds Awarded in Iowa through USDA Rural Development in First Year

### ARRA Provides Special Program Features for Business Loan Guarantees

Since being signed into law on February 17, 2009, the American Recovery and Reinvestment Act (ARRA) has made a big impact in rural Iowa with nearly \$125 million in loans and grants awarded so far through USDA Rural Development.

“President Obama’s Recovery Act has helped create jobs and lay a new foundation for economic growth during the greatest economic crisis since the Great Depression,” said Agriculture Secretary Tom Vilsack. “USDA has used Recovery Act funding to create badly needed jobs and stimulate local economies, help farmers and rural businesses make it through tough times, ensure that struggling families can put food on the table, and build and revitalize critical infrastructure in rural communities across America.”

Additional ARRA loans and grants will continue to be available through USDA Rural Development until September 30, 2010, or until all funds have been awarded.

“The American Recovery and Reinvestment Act has given our agency an unprecedented opportunity to create jobs and invest millions of dollars in rural Iowa,” said Bill Menner, USDA Rural Development State Director in Iowa. “We have been able to help fund projects and programs at levels never seen before.”

Again, additional ARRA loans and grants will continue to be available through USDA Rural Development until September 30, 2010, or until all funds have been awarded.

Special ARRA funds administered by the agency during the past year have helped 950 families purchase homes through \$86.2 million in guaranteed and/or direct home loans. Eleven businesses in rural communities have received a total of \$28.9 million in guaranteed loan funds to help with such things as debt refinancing and expansion.

Finally, more than \$9.4 million has been provided to help 53 communities improve vital community facilities such as health clinics, and fire stations, along with emergency services and infrastructure such as water and waste water treatment facilities.

Loan Guarantees for Business Development USDA Rural Development’s loan guarantee program for businesses provides incentives to lenders to encourage rural business credit, including

the take-out of interim construction loans, working capital, and restructure and refinance. If eligible, lenders may obtain guarantees prior to construction as well.

Special ARRA program features include up to a 90 percent guarantee on loans up to \$10 million, no annual renewal fee and a 1 percent guarantee fee.

“Guaranteed loans help lenders manage their risk, improve risk-based equity capital utilization, improve the local economy, provide financing beyond normal lending limits and are sources of liquidity,” Menner said.

### Special ARRA Funds Remain Only Until September 30

USDA Rural Development has an additional \$115 million available in 2010 through ARRA to assist businesses, communities and homeowners in rural Iowa. Loan and grants will be available through September 30, or until all funds have been awarded.

“The application process for ARRA direct loans, guaranteed loans and grants is essentially the same as requesting regular program assistance from our agency,” Menner said. “Now is the time to review and complete project applications.”

A wide variety of projects may be eligible for ARRA funding including businesses and economic development organizations looking to create jobs, along with communities in need of infrastructure and facility improvements.

Additionally, low-interest, no-down-payment loans are available to assist eligible families purchase homes in rural areas or in communities with less than 20,000 residents.

### Contact USDA Rural Development

USDA Rural Development has 11 offices across the state serving the 1.9 million Iowans living in rural areas and communities. Office locations include a state office in Des Moines, along with area offices in Albia, Atlantic, Humboldt, Indianola, Iowa Falls, Le Mars, Mount Pleasant, Storm Lake, Tipton and Waverly.

USDA Rural Development is an equal opportunity lender with a variety of direct and guaranteed rural credit programs involving single and multi-family housing, community facilities, water and sewer development and business and industry programs.

Further information on this and other programs offered by USDA Rural Development is available by calling (515) 284-4663, by visiting [www.rurdev.usda.gov/ia](http://www.rurdev.usda.gov/ia) or at any local area office.

Contact: Darin Leach, Public Information Coordinator  
Telephone: (515) 284-4747 (office); (515) 669-5691 (cell)  
E-mail: [Darin.Leach@ia.usda.gov](mailto:Darin.Leach@ia.usda.gov)



**CBSI** *Spotlight on Services*



*A Community Bank-Owned Insurance Company*

Credit Life and Reinsurance ■ Risk Management

For more information contact: Mike Miller

563-288-2433 office; 563-288-4113 fax;

563-260-1126 cell



# Mainstreet Economic Survey

## Rural Mainstreet Economy Slumps for February: Bankers See Hiring as Biggest Challenge for 2010



Ernie Goss

### February Survey Results at a Glance

- Rural Mainstreet index declines for first time since August of 2009
- Farmland price index advances above growth neutral for first time since October of 2008
- Approximately 38 percent of bank CEOs expect lack of hiring by Rural Mainstreet businesses to be the biggest economic hurdle in 2010
- Over 40 percent report that regulatory oversight was restraining U.S. bank lending

For the first time since August of last year, the overall index for the Rural Mainstreet economy declined and continues to indicate significant economic weakness, according to the February survey of bank CEOs in a 10-state region.

The Rural Mainstreet Index (RMI), which ranges between 0 and 100, slumped to 36.6 from January's 41.0. A reading of 50.0 is considered growth neutral.

"The RMI has remained below growth neutral for 24 consecutive months. It is clear that the rural economy of the region is underperforming the urban areas. The softer farm economy for 2009 continues to weigh on Rural Mainstreet businesses in the region. Agriculture producers have been taking a conservative approach to their buying and this is showing up in our survey," said Creighton University economist Ernie Goss. Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Nebraska, created the monthly economic survey in 2005.

Despite a weaker overall index, the farmland price index moved above growth neutral for the first time since October 2008, or around the time that the U.S. dollar began to increase in value and agricultural commodity prices softened significantly. The February farmland-price index rose to 52.8 from 47.4 in January. On the other hand, the farm equipment-sales index slumped to 42.4 from 47.2 in January.

This month bank CEOs were asked to identify the biggest economic challenge to the 2010 Rural Mainstreet economy. More than one-third, or 38 percent, expect a lack of new hiring by businesses in the area to be the most significant economic hurdle for 2010. Coming in a close second, 30 percent of bankers anticipate that weak commodity prices will be the largest problem for the rural economy for 2010. Dale Bradley, CEO of Citizens State Bank in Miltonvale, Kansas, said the weakness in farm prices is not stacking up well for Rural Mainstreet banks. Ranking third were concerns over farm input prices with 16 percent expecting high agricultural input prices to be the biggest economic challenge for 2010.

As in past months, loan-volumes remained low with a February loan volume index of 43.7, which was up significantly from January's record low 33.4. This month bank CEOs were asked why U.S. banks had not stepped up their lending. More than 41 percent reported that regulatory oversight was the prime

factor limiting loan activity. According to Pete Haddeland, CEO of First National Bank in Mahanomen, Minnesota, "I think the regulators have zeroed in on community banks, and are holding them to a much higher standard than the big banks." Another banker indicated that it was the threat from regulators that was causing reduced lending.

On the contrary, Larry Franklin, CEO of Cornerstone Bank & Trust in Alton, Illinois, said, "Community Banks continue to fund their communities, by making loans for worthwhile purposes, despite increased regulatory burden." On the other hand, 34 percent of the bankers reported that cut backs in loan demand from borrowers was the chief factor reducing loan activity. Only 21 percent said that borrower credit quality was the prime reason that U.S. banks were limiting lending.

For February, the checking-deposit index declined to 52.8 from January's 59.2 and December's 69.8. The index for certificates of deposit and other savings instruments expanded to 50.9 from 47.5 in January.

As the Rural Mainstreet Economy wilted for the month, the economic outlook slipped as well. The monthly confidence index, which tracks bankers' economic outlook six months from now, sank to 52.8 from January's 59.7. However, there were some improvements on the horizon. According to Ken Walsh, CEO of Ruby Valley Bank in Twin Bridges, Montana, "Cattle prices are beginning to show some improvement, which will be a big benefit in our area. We look forward to green grass and a renewed outlook for the local economy."

Hiring in rural areas has yet to trend upward. The new-hiring index fell to 34.8 from January's 40.1. While the February 2010 reading was up from February 2009's record low 14.7, this month's report was not promising in terms of new hiring. This was the 26th consecutive month that the index has been below growth neutral. Only 7 percent of bankers said that hiring was up from last month.

"The Rural Mainstreet economy continues to lose jobs at an annualized rate of roughly 4 percent. While this is certainly not good and is well above the rate of job losses for urban areas, the pace of job losses has slowed from the 5 percent pace experienced in previous months," said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton.

Like much of the nation, retail sales were less than healthy for the month with a February retail-sales index of 32.4, which was down from 40.2 in January. Some of the bankers report losing local sales to regional "big box" retailers.

Just like the recently released national housing data, home sales for Rural Mainstreet were not good for February. The home-sales index slumped to 37.5 from January's 40.1.

Each month, community bank presidents and CEOs in nonurban, agriculturally and resource-dependent portions of the 11-state area are surveyed regarding current economic conditions

in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included.

This survey represents an early snapshot of the economy of rural, agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 11 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy.

**Colorado:** Colorado's RMI sank to 35.7 from 40.3 in January. The February ranch- and farmland-price index rose to 51.9 from January's 46.8. The state's Rural Mainstreet new hiring index sank to 33.9.

**Illinois:** The Illinois RMI once again moved below growth neutral. The RMI for February slumped to 34.8 from January's 38.4. Farmland prices rebounded to 51.0 from 44.4 in January. Hiring in rural agriculturally dependent areas of the state remained weak with a February reading of 33.0 for the new hiring index.

**Iowa:** Iowa's RMI once again moved below growth neutral according to the monthly survey of bank CEOs in the state. The RMI for February dipped to 37.1 from 41.2 in January. The farmland-price index climbed above growth neutral to 53.3 from January's 47.6 and December's 44.7. Iowa's new hiring index for February was a frail 35.3. According to **Bradley Robson, CEO of First State Bank in Belmond**, "The federal government needs to quit working on/or passing legislation that short circuits business decisions founded in economics rather than legislative enticements."

**Kansas:** The Kansas RMI, like much of the region, was below growth neutral 50.0. The index slipped to 34.9 from January's 39.0. The farmland-price index climbed to 51.1 from January's 45.4. The February new hiring index for the state was a weak 33.1

**Minnesota:** Minnesota's RMI dipped to 36.3 from 39.8 in January. Minnesota's farmland-price index advanced to 52.5 from January's 46.3. New hiring among Rural Mainstreet businesses was very weak with a reading of 34.5.

**Missouri:** The Missouri RMI slumped to 37.0 from 41.5 in January. The February farmland-price index grew to 53.2 from January's 48.0. Hiring in rural areas of the state was not good for the month with a new hiring index of 35.2.

**Nebraska:** The February RMI for Nebraska slipped to 38.5 from 42.3 in January. The farmland-price index for February rose to 54.7 from January's 48.7. The state's rural areas continue to lose jobs as the new hiring index for February stood at 36.7.

**North Dakota:** For the ninth straight month, North Dakota's RMI was the highest in the region. Even so, the index moved below growth neutral to 48.1 from January's 52.1. North Dakota's farmland-price index climbed to 58.3 from January's 52.6. Layoffs exceeded hiring for the month as the new hiring index stood at 40.3 for February.

**South Dakota:** The RMI for South Dakota remained below growth neutral with a February reading of 38.5, down from 43.2 in January. The state's farmland-price index climbed to 54.7 from 49.7 in January. South Dakota's new hiring index was 36.7 for February.

Table 1: Rural Mainstreet Economy for Last Two Months and One Year Ago: (index > 50 indicates expansion)

	Feb. 2009	Jan. 2010	Feb. 2010
Area economic index	16.9	41.0	<b>36.6</b>
Loan volume	43.9	33.4	<b>43.7</b>
Checking deposits	61.4	59.2	<b>52.8</b>
Certificates of deposit and savings instruments	56.1	47.5	<b>50.9</b>
Farmland prices	38.3	47.4	<b>52.8</b>
Farm-equipment area sales	31.0	47.2	<b>42.4</b>
Home sales	24.6	40.1	<b>37.5</b>
Hiring	14.7	40.7	<b>34.8</b>
Retail business	18.4	40.2	<b>32.4</b>
Confidence index (area economy six months out)	21.2	59.7	<b>52.8</b>

Table 2: The Rural Mainstreet Economy

	Weak commodity prices	Lack of hiring by new	High farm input prices	Other
1. What will be the single biggest challenge to the Rural Mainstreet economy for 2010?	30%	38%	16%	16%
	Regulatory Oversight	Cut backs in borrower demand	Credit quality of borrowers	Other
2. What do you think is the most significant reason that U.S. banks are not making more loans?	41%	34%	21%	4%