OCT/NOV 2016

the COMMUNITY BANKER UPDATE

THE TECHNOLOGY & OPERATIONS ISSUE

OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS OF IOWA

CBI

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October/November 2016
In This Issue

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2017 CBI Event Schedule

CBI holds and sponsors a number of informative and entertaining events throughout the year, intended to educate our members, provide networking opportunities, raise funds for educational and advocacy efforts and support the professional development of Iowa's community bankers. Below is a schedule of tentative dates for major CBI events being held during 2017. This is not an exhaustive list of all live events, and dates are subject to change. ■

Find a more comprehensive list of all CBI events, resources and educational programs in our 2017 Annual Planner & Resource Guide. Free copies will be sent to all CBI Members in late December 2016.

February 16
- Leaders of Tomorrow Quarterly Meeting

March 9
- CBI BSA/AML Seminar

March 15-19
- ICBA National Convention

March 21-22
- Community Bankers for Compliance *Spring Session*

March 29
- CBI Legislative Reception

March 30-31
- 15th Annual Leaders of Tomorrow Leadership Development Conference

April
- Community Banking Month

April 11-13
- SHAZAM Conference

April 13
- Iowa Division of Banking Day with the Superintendent

April 22-29
- Money Smart Week

April 30 - May 3
- ICBA Capitol Summit

June 1
- CBI Peer Connection Forum

July 19-21
- CBI 46th Annual Convention

August 17
- Leaders of Tomorrow Quarterly Meeting

September 11
- 10th Annual Golf Tournament

September 26-27
- Community Bankers for Compliance *Fall Session*

Nov. 1-3 & 6-10
- CBI Community Banker Legislative Tours

November 16
- Leaders of Tomorrow Quarterly Meeting

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— ***Sean Noonan, President/CEO – Farmers State Bank***
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CBI Community Bankers of Iowa
Education Foundation

CBI Education Foundation

Consider Making an Investment in Iowa's Future

The CBI Education Foundation was formed to help improve the financial literacy of Iowa's students, to support higher education for Iowa college students and encourage senior level students to consider community banking as a career, to support community bankers' professional education, and to recognize the accomplishments of community bankers, both to the industry and their communities.

It is the Foundation's plan to build a self-sustaining source of support for financial education by soliciting both contributions for immediate project funding, and also larger donations to provide for additional funding through investment earnings. The Foundation is an IRS-approved 501(c)(3) organization, governed by the Community Bankers of Iowa Council of Presidents.

Major programs funded by the CBI Education Foundation include:

- Money Smart Week Elementary Poster Contest
- Community Bankers Summer Intern Scholarship Program
- Leaders of Tomorrow Scholarship Program
- Robert D. Dixon Founders Award Program
- Leaders of Tomorrow Up & Coming Banker of the Year Award
- Ongoing educational opportunities for bankers and prospective bankers across Iowa.

Contributions of any size are accepted and encouraged. Various levels of recognition have been established to spotlight those who show enhanced support. Contributions made by both personal and corporate donors are tax deductible to the fullest extent of the law. Also in cooperation with the Community Foundation of Greater Des Moines, donors willing to make an endowment contribution can realize a 25% Iowa state tax credit in addition to deductibility. Contact us for details on this exciting program.

Your donations go right to where they can do immeasurable good in making Iowa's communities and their banks an ongoing, critical part of everyday life. Never before has there been such a focused effort to support education related to community banking across Iowa. For more information and to find out how you can participate, visit our website. ■

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Click here for more information or to download the Brochure and Donation Form.

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SIEM Keeps a "Big Eye" on Cyber Criminals

Written By:
Steve Smith
EO Johnson

SIEM, not to be confused with "Seim" the language of Papua New Guinea, or a river in the Ukraine, is an acronym for Security Information and Event Management.

SIEM is a complex set of technologies that form a "big eye" in your technical infrastructure watching for every subtle sleight of hand being played by cyber criminals. It's the big brother to your firewall and antivirus—that provides real-time analysis of security alerts generated by network hardware and applications. It really is complex.

Cybercriminals like simple.

It's SIEM's "complexity" that sends the crooks off to find easier jobs. As big banks continue to harden their security—small to midsize banks have become cybercrime's new sweet spot. As the threats rise, bank examiners are suggesting SIEM. Many smaller banks have been told about SIEM but don't know how to use it. SIEM is not a simple box that can be dropped in and incidents pop out like a neon sign.

Managed Security Service Providers (MSSP) Offer Expertise
Banks are not in the security business, nor can they afford to test out the many SIEM technologies available. Without care and feeding, SIEM is just a log manager.

"Complexity is a big issue, as is issues with cost of ownership. It's not just an issue of acquiring and installing SIEM. You have to do quite a bit of integration, configuration and ongoing maintenance. And you've got to have dedicated resources for it if you want it to be responsive," says Dean Francis, author of IT Pro Ranking: SIEM.

Some customer focused MSSPs are doing the research. They're making the investment to test the technologies and find the best SIEM option for their customers. A managed security partner can also add the human expertise needed to interpret SIEM's core log correlation talent to provide threat information in real time—as it's happening.

SIEM Needs Attention to be Most Effective
It's difficult for small to midsize banks to keep up with SIEMS logs, catch the irregularities and respond to them appropriately. Looking at the depth of its capabilities, it's easy to see why.

SIEM logging capabilities include:

- Widespread log collection throughout your network devices, security appliances, databases, workstations and more in your system.
- Real time log correlation that happens in-memory to detect zero-day threat vectors.
- Performance capability to process all time and transaction-based events to provide actionable data and incident awareness.

Logs need analysis. A security partner has quick access to a wealth of historical data, network and user activities for anomalies and patterns that raise red flag in your network—including discovering the root-cause of the threat, breach, failure, or activity that appears to be non-compliant.

Automated quick response actions in SIEM software contains the threats and has even expanded beyond security to cover IT troubleshooting and issue remediation.

Logging analysis software can:

- Send real-time notification and alerts of irregularities in the network.
- Interactively explore historical log data.
- Isolate root-cause threats, breaches, failure, or any other non-compliant activity.
- Perform event forensics to determine what really happened before, during, and after the event.
- Track log activity over time and in context of suspicious events.

One of the key values SIEM brings to banking is regulatory compliance and reporting capability. Be aware that not all SEIM products ensure compliance reporting such as:

- Detailed reports of non-compliant activity and policy violations in your network.
- Historical system-based, user-based and network-based event data for compliance auditing.
- Information on threat responses and mitigation measures used by the system to contain or prevent attacks.

SIEM is the "big eye" watching over your infrastructure. Based on the success of large bank use of SIEM to thwart breaches, it's time small to midsize banks had the same protection. Partnering with a managed service security provider can be an affordable path to security and your peace of mind. ■

It Can Happen Anywhere

Written By:
Mike Burke, SHAZAM

Everybody knows everybody in a small town. This can create a cocoon of comfort where people think, "Nothing ever happens here." This familiarity leads to a trust that makes security seem less important. However, that bubble can burst in an instant.

Banks and credit unions in small towns are just as susceptible to criminal threats and activities as those in the bigger cities. Don't fall into the trap of thinking serious criminal activity is a rare occurrence in a rural area. Here's what you can do.

Cameras are an obvious first step. Make sure there are plenty of external cameras that can capture a person's face. A shot of the top of someone's head doesn't help as much as a facial picture when it comes to recognition and identification.

Inside the building, those cameras are just as important. Employees likely won't remember what a criminal looks like after a robbery. The stress of a robbery or the threat of a weapon can lead to tunnel vision. They're not going to remember details about faces, voices and other identifying features.

At the open and close of business every day, make sure there are at least two staff members at your institution. The old adage, "There's safety in numbers," is common for a reason.

You can also make the building safer to open and close just by looking around. Eliminate some of the risk by simply updating the building's landscaping. Are there bushes or other small structures outside the building where a criminal can wait and hide? If so, get rid of them.

When it comes to observing suspicious behaviors, go with your gut reaction and pay attention to seemingly small details. If it doesn't feel right, it's probably not. A lot of times, a criminal may be casing your business for 24 – 72 hours prior to the actual robbery or other crime.

Criminals will sometimes come in the lobby and start asking weird, non-financial questions about armed security and business hours. In some cases, they might just walk in, not talk to any employees and only look for cameras and exit doors. If someone is lingering in the lobby without doing business, if it's an unfamiliar face, or if he or she keeps hanging around outside, it should send up a red flag.

All of these preventative measures should be paired with a thoughtful program on how employees should deal with hypersensitivity after a crime has occurred. A proper care and assistance program must be in place for their mental and physical health.

If you miss this step, it can cause problems that linger long after an incident. One common issue is called group thinking.

After a traumatic situation, the two or three employees who were at the scene might band together in their hypervigilance because their stress issues aren't being handled appropriately. This can lead to alienation from the rest of the staff, escalation of their fears and potentially resignation of the employees who went through a disturbing situation.

Don't lose a valued, 20-year employee because a situation wasn't handled correctly. That could be decades of staff-member experience washed right down the drain.

So, what's the best way to deal with these issues? Have a plan and discuss it prior to any incident happening.

Security doesn't change because of geography or demographics. No matter the size of your institution, investing in the safety and security of your customers and staff is time and resources well spent. ■

Mike Burke joined the SHAZAM Network with more than 30 years of experience in law enforcement, criminal justice instruction and homeland security. His expertise helps SHAZAM's clients enhance their security measures and ensure regulatory compliance.

When it Comes to Cybersecurity and Your Bank, What Do Your Customers Think?

Written By:
Steve Sanders
CSI

National Cyber Security Awareness Month each October reminds us all—in both the public and private sectors—to renew and strengthen our vigilance against cybercrime. So, it's fitting this time of year for financial institutions to not only review their cybersecurity policies and procedures, but also contemplate which issues most concern their customers.

To help institutions understand the consumer point of view, CSI recently engaged global market research firm Harris Poll to conduct an independent survey of more than 2,000 randomly selected consumers, age 18 and above, nationwide. They responded to a series of questions surrounding attitudes toward various banking topics, including questions that centered on security.

It's no secret that consumer confidence in a financial institution can be shaken by a data breach. Consumers trust institutions with their most sensitive financial and personal details and, in turn, expect their information to remain secure and safe.

Breaches—particularly digital intrusions—have risen over the past several years. Javelin Strategy & Research estimates more than $112 billion was lost over the past six years due to various forms of fraud and identity theft. There is little reason to believe that such threats will decrease in the near future.

And yet, despite the growth in cyber threats, consumers have high regard for how well financial institutions protect their information and assets. In CSI's poll, 78 percent of respondents said they either somewhat or strongly agree that their financial institution can protect them from hackers and thieves. These high marks were generally consistent across age, gender and region of respondents' residence.

In short, financial institutions have done a remarkable job in building trust among consumers in their ability to protect their information and assets, despite increasing global threats. The survey data suggests that organizations should continue these efforts, in particular by focusing on:

- Creating, implementing and regularly auditing security policies and procedures
- Developing a robust risk management program to both prevent and manage risk
- Ensuring effective security training and resources for employees
- Cultivating a culture in which all employees – from front-line staff all the way up to corporate boards – function with a security-first mindset

On another security-related topic, financial institutions also have done an excellent job of educating consumers on EMV or "chip cards." EMV implementation, which began in 2012 and continues today, aims to create more secure credit card transactions through an on-card computer chip that creates an encrypted code for every transaction. It is designed to guard against skimming and cloning – two of the main threats to conventional, magnetic stripe cards.

Studies of EMV usage in Europe suggest that the technology works. FICO, drawing from Mercator Advisory Group research, expects the technology to reduce fraud losses in the United States possibly to the tune of $700 million annually, as implementation increases.

And, despite the magnetic stripe being the standard for more than 40 years, consumers overwhelmingly trust EMV. A full 82 percent of survey respondents said that they strongly or somewhat agree that chip cards are more secure than mag-stripe cards for in-store transactions. Interestingly, trust in EMV technology appears to rise among respondents as they get older, with 88 percent of respondents age 65 and older saying they somewhat or strongly agree that EMV technology offers a more secure payment method than mag-stripe cards. Confidence in EMV similarly rises with education and income levels.

It should be noted that only 33 percent of all respondents strongly agree that EMV is more secure. This indicates there is still room for consumer education on the topic. Additionally, it might suggest that consumers, who are now starting to see more EMV-enabled terminals at local retailers, are still waiting to experience the full effects of this new technology.

Still, this is good news for financial institutions, which have spent significant time, energy and resources working to educate and familiarize consumers with this new technology. In CSI's 2016 Banking Priorities Study, more than 60 percent of banking executives polled indicated they intend to increase spending on EMV implementation.

The results of this consumer survey show that funding EMV initiatives has been—and is likely to continue to be—a good investment, given how confident consumers already are in this emerging technology.

So, while consumer trust in EMV technology—and overall security—is healthy, banks must continue to prioritize their implementation of the latest security measures and technologies designed keep consumer data safe. To read more about consumer attitudes toward cybersecurity and banking as a whole, download CSI's Executive Report: 2016 Consumer Survey Report. ■

Steve Sanders, CSI's vice president of Internal Audit, oversees the evaluation and mitigation of risks associated with IT, financial and operational systems.

Why a Compliance Mindset Is Hurting Community Banks

Written By: Adam Mustafa
Managing Partner & Co-Founder - Invictus Consulting Group

Community bank CEOs are wasting money on compliance. They are spending more than ever, hiring additional risk officers, internal auditors, compliance officers, vendors and consultants. They are checking every box and fulfilling every mandate.

And they are doing it all wrong.

A new study by the Federal Reserve Bank of St. Louis' supervision division found that spending more on compliance isn't leading to higher regulatory ratings for the smallest community banks. It isn't elevating their managing scores, or positioning the bank for success.

And that's because having a compliance mind-set is a recipe for mediocrity, no matter the size of the bank. The banks that will earn the most leeway with regulators—and maximize value for shareholders—will naturally implement and utilize the tools and processes that are a prerequisite for "compliance" as a critical function of their strategic and capital planning processes.

When that happens, compliance becomes a mere after-thought; something that is more icing on a cake that doesn't need icing to begin with. This type of approach is actually easy to execute. You don't need expensive, overrated and highly misleading black-box models and software. You don't need an entire department dedicated toward enterprise risk management.

What you do need is a cultural mindset, which starts with the CEO. This mindset starts with an objective to use these tools to play offense by seeing problems before they materialize. The CEO then positions the bank to gain a competitive edge, while their competitors (from both an operational and capital markets perspective) get blindsided.

I participated in a panel this month with regulators from the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp. at the New York Bankers Association Financial Services Forum. The topic was how best to manage commercial real estate concentrations.

Part of the discussion revolved around the role of stress testing, which can be critical to showing examiners that a bank has enough capital to handle a risky portfolio.

Stress testing is a great tool for the job, but it's a tool, not the job. Banks that simply submit stress tests to regulators as evidence that they can manage a loan portfolio aren't going to get what they want.

Instead of viewing stress tests as an end game, bank CEOs need to think of them as tools to provide insights. Reports must be discussed at the board level and understood by the highest levels of management. And then the bank must adjust its strategy if the tests show a potential problem.

The trick to compliance is to not treat it as a compliance exercise. A bank CEO must say, I am going to use this as a strategic planning tool. A CEO cannot give a stress test to the chief risk officer and say make the problem go away. CEOs must look at the results, understand them and use them to adjust their strategic thinking.

A funny thing happened when I began talking about compliance on the New York Bankers Association panel. The regulators nodded their heads in agreement. ■

Adam Mustafa is Co-Founder and Managing Partner at Invictus Consulting Group. For more information on CBI Affiliate Member Invictus Consulting, visit invictusgrp.com.

Be Prepared for Upcoming Compliance Changes:
Enroll in the Community Bankers for Compliance Program

Today's community bank compliance officer is charged with staying current with all the compliance rules and regulations and making sure they are being used effectively within the bank. For 14 years, the Community Bankers of Iowa has partnered with Community Bankers for Compliance (CBC), a program that offers the tools and information needed to implement compliance throughout your bank. The complexity regulatory changes makes it critical that your compliance officer is ready to deal with these changes as they occur.

The CBC program is the most successful and longest running compliance training program in the country and provides up-to-date information on compliance issues and developments in bank regulations, as well as proven techniques for maintaining your in-bank compliance program. Having received approval from regulatory agencies, the program has been instrumental in helping over 2,000 community bankers across the nation develop an increased understanding and ability to deal with regulatory issues.

Annual membership to the CBC Program includes five inter-related compliance services:

1. **Live Regulatory Seminars.** Two live seminars are provided throughout the year. A detailed manual is provided to each participant.

2. **Webcasts - Regulatory Update.** Four regulatory update sessions are presented in webcast format on separate days. Each webcast discusses current news and regulatory changes that may have an impact on community banks. Each webcast will be 1.5 hours, including questions and answers. A detailed manual, written in full narrative, will be provided.

3. **Monthly Newsletter.** The Compliance Update newsletter is sent to program members each month. It provides an update of compliance issues that impact community banks.

4. **Compliance Hotline.** Members of the program may visit Young & Associates' website or call their toll-free number for compliance officer questions that arise on a daily basis. This service ensures that your bank is just a phone call away from the information you need in order to answer your compliance questions.

5. **CBC Members-Only Web Page.** This dedicated web page is reserved for banks that are registered members of the Community Bankers for Compliance Program. In it you will find special and timely information and tools that can be used to enhance the regulatory compliance function at your bank.

For more info or to register for the Community Bankers for Compliance program, visit our website at cbiaonline.org or contact Pretty Patel at 515.453.1495 or ppatel@cbiaonline.org. ■

Sowing the Grassroots

ICBA's advocacy director looks to foster a culture of advocacy

New ICBA Director of Advocacy Joshua Habursky recently joined ICBA to head up grassroots outreach and has been working to expand community bank engagement with their lawmakers and federal regulators. ICBA sat down with him to see how it's going.

IB: How are you settling in at ICBA?
Habursky: Very nicely. ICBA has a great infrastructure in place and a lot of active advocates among community bankers. So that's an excellent place to start. My goal is to build on what we've achieved so the community banking industry continues to have a powerful grassroots presence in Washington.

IB: How?
Habursky: First we need to ensure we're maximizing the potential of our industry to engage policymakers with a loud, clear and collective voice. There's no doubt that we have many community bank executives who closely track policy issues and actively reach out to representatives in Washington. We want to see that same level of passion extend throughout the bank—to staff members at every level, as well as bank directors.

> *"When lawmakers have questions about banking issues, the community banks in their states and districts should be their first points of contact."*
>
> *– Josh Habersky, ICBA director of advocacy*

When Congress or the regulators are considering a policy initiative that affects community banks, everyone in the industry should be engaged, because everyone is affected. Community banks employ 700,000 Americans, so we need to tap as many of them as possible to make sure Washington is listening.

IB: Are there any other ways to build on our grassroots efforts?
Habursky: We have an opportunity to engage customers who have a stake in the public policy process, including small-business owners. Community banks have close relationships with customers who often go back many years, so we need to engage those allies who are committed to local banking. Anyone with an interest in promoting community banks can be an ICBA advocate.

IB: How important is grassroots to ICBA's policy goals?
Habursky: It's absolutely essential! Lawmakers seek out reliable and trusted sources for information as they make key policy decisions, and they are particularly interested in the views of their constituents. I mean, lobbyists can provide good information, but members of Congress want to hear from the voters who determine whether they stay in office.

So community bankers should be their representatives' primary source of information on community banking—period. When lawmakers have questions about banking issues, the community banks in their states and districts should be their first points of contact. If we're not, then we're not exercising our voice on issues that affect our businesses and livelihoods.

IB: What are the important grassroots issues this fall?
Habursky: Obviously we're going to be pushing our regulatory relief agenda. We'd like to build on our successes from the end of last year by advancing more provisions from the ICBA Plan for Prosperity regulatory relief legislative agenda. That includes bills supporting relief from Basel III, mortgage rules, the call report. There's a lot in play.

Meanwhile, we're going to try to make progress on stricter data-security standards for merchants, build support for a repeal of debit interchange price controls, and fend off pushes from the credit unions and Farm Credit System. So we have our work cut out for us.

IB: All right, so what's the best way to get involved?
Habursky: A quick and easy way to start is by filling out the "Become an ICBA Advocate" form on ICBA's Be Heard grassroots website, at www.icba.org/beheard. Those who sign up will receive periodic action alerts asking them to reach out to their elected officials on pressing issues facing the industry.

The next step is to take action. That means making the phone call when it counts, sending the email or tweet, or even meeting in person with lawmakers as an ICBA advocate. This might be old hat for many community bankers out there, but we need as many people in this industry as possible to get involved. So let's also encourage colleagues, employees, directors and even customers to join us.

ICBA will be providing many new resources, training sessions and interactive content to help bolster our grassroots efforts and give already-active ICBA advocates the platform to recruit others. There's plenty for us to fight for, so we need to create an industrywide culture of advocacy.

IB: Any final bit of advice for readers?
Habursky: Yes—call me. Community bankers are welcome to contact me directly at joshua.habursky@icba.org or (202) 821-4355. Grassroots is all about communication, so I welcome questions, comments and feedback any time. ■

On Bad-News Banks

Written By: Rebeca Romero Rainey, Chairman of ICBA

From the TOP

Disheartened and upset. I used those words to describe how I felt about the Wells Fargo scandal when I was recently interviewed by CNBC's Steve Liesman. While at the Federal Reserve Bank of Kansas City's forum for minority bankers, I told him that it was so upsetting to think that anywhere in America consumers could be taken advantage of like that.

When Liesman asked if something like this could happen at a community bank, I immediately said, "No, it would not happen at a community bank, and that's the difference."

I explained that at my community bank, I'm an active part of the community and that we work hard to build trust and relationships with our customers. I also know that if something like this were to happen at a community bank, that bank and its executives would be held strictly and personally accountable for overseeing a culture that allowed such abuses to happen.

Yet again, here amid the chaotic news cycle, we see a bright line that distinguishes the large systemically risky megabanks like Wells Fargo from the thousands of community banks across the country. It's unfortunately events like these scandals that show everyone just how different our business models and playing fields truly are.

But community bankers have the upper hand, if we only play our full hand. We have the customer relationships, we have a time-tested business model that works, we have the sterling reputation all on our side. So let's take those positives and counter the bad megabank news with our message—the community bank message.

ICBA is with you every step of the way. After all, distinguishing "community banks" from merely "banks" is what your national association is all about. That's why ICBA exists, because it serves community banks and only community banks. That's also why ICBA has created marketing and communications resources designed for community banks. ICBA's Go Local initiative is a perfect example of educating consumers about the power of local community banks. The initiative ultimately helps consumers connect the dots between community banks and how they help their local customers and communities thrive.

"We have the customer relationships, we have a time-tested business model that works, we have the sterling reputation all on our side."

Think of Go Local in terms of the farmer's market movement. Does an apple taste better from a local farm or from one seven states away? We all know that answer, and community banking is the same. It's much sweeter to know your banker and know where your money is going. Is it going to fund big-box businesses seven states away, or is it going to a local entrepreneur who wants to open up a business on Main Street? We all know where we stand.

I encourage you and your customers to spread the Go Local community bank message, if you aren't already. Make "local" part of your narrative. Local matters. Community banks matter. We are different. It's times like these when we need to communicate and explain just a little more.

Consumers are listening and they want alternatives to the bad-news banks. Let's give them a ray of hope in the banking world. Let's give them community banks. ■

Rebeca Romero Rainey is chairman and CEO of Centinel Bank of Taos, in Taos, N.M.

An Important Distinction

Written By: Camden Fine, President and CEO of ICBA

FINE POINTS

Here we go again. Another megabank scandal has stunned ICBA and the nation's community bankers, who are working to ensure the negative backlash from outraged consumers and policymakers does not rub off on their local institutions. Not only did Wells Fargo violate the trust of its customers by opening as many as two million unwanted accounts, the top executives at the nation's second-largest bank have generally refused to accept full accountability as Washington considers a policy response.

Although Wells Fargo's now-retired chief executive, John Stumpf, has directed blame toward the 5,300 employees the bank fired for following its crooked sales practices (or else, paradoxically, be fired), his banking industry allies have responded by merely condemning dishonest or unethical behavior at "any bank, anywhere, any time." But this fraud and its potentially industry-shaking regulatory aftermath cannot be laid at the feet of anyone other than the $2 trillion-asset institution that perpetrated it. It certainly shouldn't punish or burden community banks that had nothing to do with the fraud.

"...we will stand up for community banks every step of the way."

Nevertheless, the Wells Fargo scam poses a grave threat to our industry. Community bankers have been down this road before, and it doesn't end well. We have seen over and over how megabank misdeeds result in dramatic new regulatory demands—not on the perpetrators, but on us. Again and again, systemically risky institutions have made reckless decisions, harmed consumers and wrought a broad-brush policy response that trickles down on community banks.

So ICBA is working diligently to ensure that Washington policymakers and the American public clearly distinguish between community banks and systemically risky, too-big-to-manage institutions. In face-to-face meetings, written communications and media coverage, we have called on Congress and the regulatory agencies to avoid the kinds of overreaching laws and regulations enacted after the financial crisis, which disproportionately affected local institutions.

Furthermore, the Wells Fargo fraud should not inhibit the passage of bills containing tailored regulatory relief for community banks. Much-needed legislation inspired by ICBA's Plan for Prosperity remains before Congress this very moment, and Wells Fargo should not be allowed to stall its momentum.

Washington can and must be able to differentiate between relationship lenders, who are held directly accountable to their customers, and the megabanks, whose impersonal, transaction-based business model too often exploits consumers and puts the financial system at risk. That is why, of course, ICBA has long advocated a system of tiered and proportional regulation based on an institution's size and risk. With the Wells Fargo scandal putting immense pressure on policymakers to mount a regulatory response, this tailored approach to regulation has never been more important.

Just as community banks are accountable to their local communities, ICBA takes responsibility for exclusively representing community banks, not the megabanks that make our lives more difficult. Therefore, we will stand up for community banks every step of the way. We must ensure that we are neither tarnished by this scandal nor roped into an unwarranted and burdensome regulatory backlash. Instead, through tailored and proportional regulatory standards, we can fix what's wrong with our banking system by strengthening what's right with it—community banks. ■

Following Mr. Fine

More than 1,000 people are following Camden Fine's tweets **@Cam_Fine**— are you? Visit **www.twitter.com/cam_fine**.

Written By: Arne Munson and Jim Reber, President and CEO ICBA Securities

Push and Pull

Two-sided SBA market doubles your chance for success

Rufus Thomas, the late R&B impresario whose hit list included "The Funky Chicken" and "Walking the Dog," was not known to be a market maker of Small Business Administration (SBA) 7(a) loans. It's ironic, then, that he was talking about the two-sided benefits of both lending and investing in these products when he released his 1970 hit "Push and Pull."

Hundreds of community banks have learned that this strategy can satisfy several needs on their balance sheets and income statements. The loan department makes quality loans, which are usually 75 percent guaranteed by the federal government, in many cases to borrowers that are outside the community bank's traditional lending grid. The investment portfolio manager buys zero percent risk-weighted assets that are true floating rate instruments backed by these loans, at yields that far exceed other money-market alternatives. As Rufus himself might have said, "Let's boogie!"

Hit it

The 7(a) program has grown exponentially in the last four years as the economy has expanded and borrowers have improved their own balance sheets. In Fiscal Year 2017 the SBA estimates that there will be requests for $29 billion in guarantees, up from $17 billion in 2013.

The growth in the program has had no impact on the national debt. The 7(a) program is "zero subsidy," meaning that the fees charged the borrowers cover the costs of administration. That is a major reason the government has gradually approved larger appropriations. Of course, supporting private enterprise has been a hallmark of community banking for generations.

These loans are almost all floating rate tied to the prime rate. Borrowers' rates can range from 1.00% to 2.75 percent over prime, and loan terms will vary based on use of proceeds. Working capital credits can be seven- to ten-year terms, while real estate-backed loans can be as long as 25 years.

About half of these loans are sold into a lucrative secondary market. The lender/seller is required to retain servicing (with a 1.00 percent servicing fee), as well as the full unguaranteed portion. The sale of the loan is not visible to the small business owner since monthly payments continue to be made to the originating community bank.

Pick up the beat

The sale of the loans is really just a step in the procession. The reason a community bank is able to sell its guarantees at 10

percent premiums and higher is that there are ready buyers of the securities collateralized by these small business loans. A consortium of poolers buys the loans and aggregates them into groups of homogenous maturities, then issues Guaranteed Loan Pool Certificates (GLPCs) backed by the U. S. government.

GLPCs have some obvious and tangible benefits for community bank bond portfolios. As mentioned they're floating rate, so the risk metric known as "effective duration" is very short. These securities are fairly liquid and pledgeable. They have monthly principal and interest cash flow which further helps manage interest rate risk. Finally, the yields for these have been near that of a three-year Treasury note, in spite of their (usually) quarterly reset window.

Big finish

Let's walk our way through an example. Currently, 10-year prime plus 2.00 percent loans can be sold to a pooler at a price of about 108.50. You, the lender/seller, would keep the 25 percent unguaranteed portion, and you would retain 1.00 percent of the guaranteed balance as servicing income. (Longer loans and those with higher note rates will have higher prices.) The premium represents gain recognized immediately on sale date.

Once an aggregator has accumulated enough 10-year loans to issue a security, it will do so at a price of about 109.00. (SBA requires a pool to have at least 4 loans and a face of at least $1 million, although most securities have a multiple of both.) The investor assumes one major risk: that the loans behind the pool prepay sooner than expected. This is why it's vitally important for the buyer to examine detailed loan listings made available by the pooler, which is effectively the DNA. Generally, these investments will produce a yield that is about 100 basis points (1.00 percent) above the effective fed funds rate.

Seeking participants

This column barely scratches the surface of this subject. It is significant, though, that the number and dollar amount of 7(a) loans being made, and the number of community banks that own GLPCs, have skyrocketed in the last decade. That is argument enough of the benefits seen by the thousands of participants in the push and pull of this two-way market. ■

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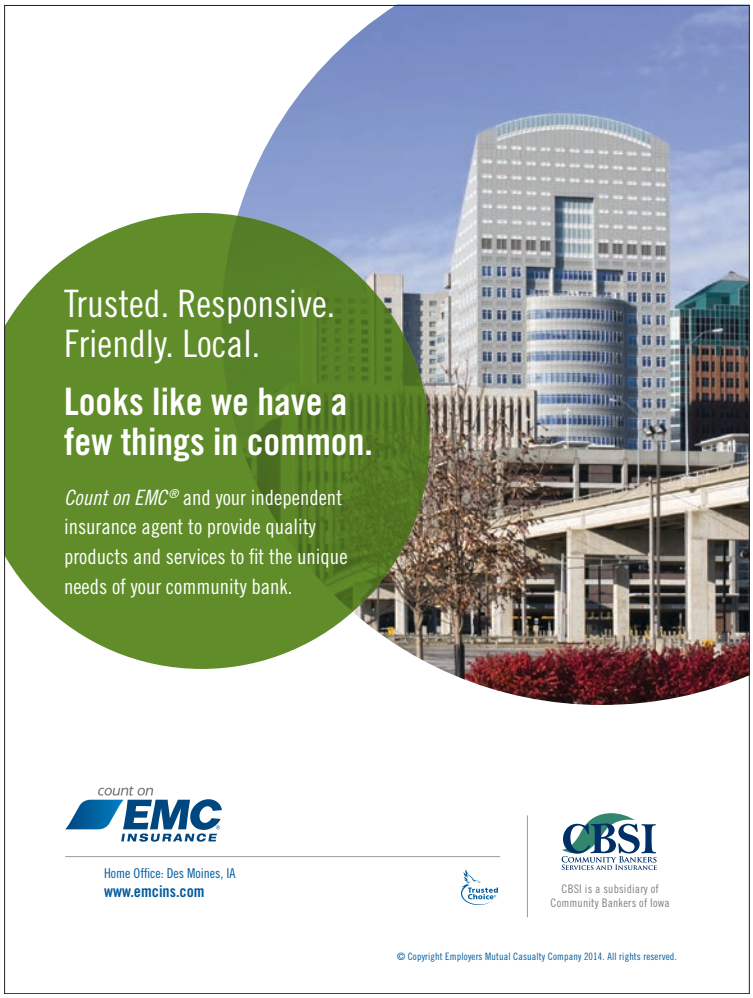

Main Street Rural Economic Survey

Rural Mainstreet Index Below Growth-Neutral for September/October:

Four of Five Bank CEOs Report Loan Restructuring, Negative Cash Flows for One of Five Grain Farmers

September Survey Results at a Glance:

- For a 13th straight month, the Rural Mainstreet Index fell below growth neutral.
- Almost 4 of 5 bank CEOs indicated restructuring farm loans due to weak farm income.
- Farmland prices remained below growth neutral for the 34th consecutive month.
- Almost one-fifth of bankers reported increasing rejection rates on agricultural loans due to weak farm income.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index sank for September and remained below growth neutral for the 13th straight month, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, which ranges between 0 and 100 fell to 37.3 from 41.1 in August. This month's reading is well off the index for September 2015 when it stood at 49.0.

"According to the USDA, 2016 net farm income is expected to decline by almost 12 percent from 2015 levels. Even with an anticipated 25 percent increase in government support payments for 2016, the Rural Mainstreet economy continues to falter according to our surveys of bankers," said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

"Even though loan defaults have changed little over the past year, downturns in farm income over the past three years are pushing bankers to change the terms of farm loans. According to Creighton's September survey, almost four of five, or 79.1 percent, of bank CEOs reported a significant upturn in loan restructuring due to weak farm income," said Goss.

Jim Eckert, president of Anchor State Bank in Anchor, Illinois, expects lower agriculture commodity prices to cause all but the best capitalized producers to only break even or lose money for 2016.

Farming and Ranching: The farmland and ranchland-price index for September expanded to a frail 30.3 from 25.6 in August. This is the 34th straight month the index has languished below growth neutral 50.0.

The September farm equipment-sales index sank to 14.3 from August's 14.8. "Weakness in farm income and low agricultural commodity prices continue to restrain the sale of agriculture equipment across the region. This is having a significant and negative impact on both farm equipment dealers and agricultural equipment manufacturers across the region," said Goss.

CLICK TO READ MORE OF SEPTEMBER'S SURVEY

October Survey Results at a Glance:

- For a 14th straight month, the Rural Mainstreet Index fell below growth neutral.
- Overall index slumps to lowest level since April 2009.
- Bank CEOs project more than one in five farmers with negative 2016 cash flows.
- More than one in four bank CEOs expect rising regulatory costs to be the biggest challenge to their bank operations over the next 5 years.
- Gains reported for Colorado, Iowa, Nebraska and South Dakota while losses were recorded for Illinois, Kansas, Minnesota, Missouri, North Dakota and Wyoming.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index sank for October and remained below growth neutral for the 14th straight month, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, which ranges between 0 and 100 fell to 31.8 from September's 37.3. This month's reading is the lowest recorded since April 2009.

"Over the past 12 months, livestock commodity prices have tumbled by 19.7 percent and grain commodity prices have slumped by 18.5 percent. The economic fallout from this price weakness continues to push growth into negative territory for six of ten states in the region," said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Jon Schmaderer, president of Tri-County Bank in Stuart, Nebraska said, "The calf market has now officially followed suit with grain and other livestock pricing declines." Another bank CEO reported calf prices are going to be down 30 to 40 percent, which will have a large downward economic impact.

Bank CEOs project that more than one in five grain farmers, or 21.6 percent, will suffer negative cash flows for 2016. "This is 2.0 percent higher than the July 2016 projection when the same question was asked," said Goss.

Farming and Ranching: The farmland and ranchland-price index for October fell to 25.0 from September's 40.3. This is the 35th straight month the index has languished below growth neutral 50.0.

The October farm equipment-sales index sank to 13.1 from September's 14.3. "Weakness in farm income and low agricultural commodity prices continue to restrain the sale of agriculture equipment across the region. This is having a significant and negative impact on both farm equipment dealers and agricultural equipment manufacturers across the region," said Goss.

CLICK TO READ MORE OF OCTOBER'S SURVEY

Tables 1-3 summarize survey findings

(click each table to view larger):

Table 1: Rural Mainstreet Economy September/October 2016: One Year Ago and Last Two Months (index > 50 indicates expansion)					
	September 2015	October 2015	August 2016	September 2016	October 2016
Area economic index	49.0	44.4	41.1	37.3	31.8
Loan volume	72.0	71.6	78.3	72.1	71.6
Checking deposits	54.2	51.2	41.3	50.0	63.7
Certificates of deposit and savings instruments	41.7	40.9	44.5	51.5	40.9
Farmland prices	35.5	31.0	25.6	30.3	25.0
Farm equipment sales	14.2	10.8	14.8	14.3	13.1
Home sales	56.4	58.1	58.9	57.2	50.1
Hiring	54.3	52.4	47.9	54.8	45.4
Retail business	49.0	44.4	38.1	33.4	36.3
Confidence index (area economy six months out)	43.8	42.1	27.2	21.5	21.6

Table 2: The Rural Mainstreet Economy September 2016	Percentage of bankers reporting				
	Unchanged	Up 1% - 9%	Up 10% - 20%	Up More than 20%	
Regarding farm loan defaults in your area over the LAST year, defaults are:	62.8%	34.9%	2.3%	0.0%	
	No change	Reduced size of loans	Increased Interest rates	Increased Rejection rates	Restructured Loans
Which of the following has been your bank's response to weak farm income? (more than one may apply):	7.0%	9.3%	11.6%	18.6%	79.1%

Table 3: The Rural Mainstreet Economy October 2016	Percentage of bankers reporting					
	1% - 4%	5%- 14%		15% - 24%	25% - 29%	Over 29%
What percentage of grain farmers in your area are projecting negative cash flow for 2016?	2.3%	25.6%		39.6%	9.3%	23.3%
	Farm foreclosures	Rising competition from Farm Credit & Credit unions	Sinking Farmland prices	Recession	Rising Regulatory costs	Other
Regarding farm loan defaults in your area over the next year, what do you expect?	9.1%	9.1%	11.4%	25.0%	27.3%	18.1%

For historical data and forecasts, visit: www.creighton.edu/economicoutlook

For ongoing commentary on recent economic developments, visit: www.economictrends.blogspot.com

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For more details on the endorsement process, please contact Jackie Haley, Membership Services Director at 515.453.1495 or jhaley@cbiaonline.org.

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CBSI has done the research for you! Endorsed service providers undergo a rigorous due diligence process and are ultimately chosen by a panel of community bankers. Critical due diligence is always performed when launching new services. The review process for each program is intended to ensure that no service program is undertaken unless it will prove to be beneficial for the membership.

CBSI and its partners continue to work together to enhance member products and services. The CBSI Board of Directors meets quarterly to review endorsed vendors and consider new partnerships, often suggested by members. Your bank and your association will benefit when you have a choice of the best providers.

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