DECEMBER 2016

the COMMUNITY BANKER UPDATE

THE MONEY ISSUE

OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS OF IOWA

UPCOMING WEBINARS

Want To Attend A Webinar?

Click MORE INFO for a full description or to register for the webinars shown here.

Visit cbiaonline.org, for details on CBI webinars and other events, or call us at 515.453.1495 for more information.

MORE INFO	Jan. 4	Cross Selling Products & Services: Compliance with TCPA & FCRA
MORE INFO	Jan. 5	Same Day ACH: Lessons Learned & FAQs for RDFIs
MORE INFO	Jan. 10	Top 10 HMDA Issues for 2016 Reporting: Checkup for March 1st Submission
MORE INFO	Jan. 11	Account Documentation Series: Compliance & Due Diligence at Account Opening
MORE INFO	Jan. 13	ADA Website Compliance Requirements & Common Errors
MORE INFO	Jan. 17	Identifying Fraudulent Transactions: Including Recent FinCEN Advisory on Email Fraud Schemes
MORE INFO	Jan. 18	ACH Specialist Series: Direct Deposit Tax Refunds: Posting & Exceptions
MORE INFO	Jan. 19	Loan Underwriting Basics: Interviewing, Credit Reports, Debt Ratios & Regulation B
MORE INFO	Jan. 24	IRA & HSA Review & Update, Including New Fiduciary Rule Implications
MORE INFO	Jan. 25	Part 1 – New FFIEC Consumer Compliance Rating System, Effective March 31, 2017: Oversight & Compliance Management Program
MORE INFO	Jan. 26	Director Series: Risk & Capital in Strategic Planning for the Board
MORE INFO	Jan. 31	Call Reports Update 2017

December 2016
In This Issue

UPCOMING EVENTS

February 16	LOT Quarterly Meeting More Info
March 9	BSA/AML Conference More Info
March 21-22	Community Bankers for Compliance *Spring Session* More Info
March 29	CBI Legislative Reception
March 30-31	LOT Leadership Development Conference More Info

CBI Community Bankers of Iowa

Community Bankers of Iowa
1603 22nd St, Suite 102
West Des Moines, Iowa 50266
Phone: 515.453.1495
www.cbiaonline.org
cbia@cbiaonline.org

BSA/AML Conference Coming In March

This Spring CBI will host the 2017 BSA/AML Conference, March 9, 2017 at the Hilton Garden Inn in Johnston, Iowa. This seminar helps to keep BSA personnel informed of industry trends, regulatory focuses, proposed rules, and other information relevant to the BSA professional.

The program is designed to focus specifically on all applicable BSA activity over the last 12 months and will focus on:

- FinCEN activity and emerging trends
- Cyber Security and Your BSA/AML Program
- Regulatory Update
- CTR Filing Guidance
- Case Studies
- Round-table Discussion: Compliance Challenges

Who Should Attend
This conference is ideally suited to employees with BSA/AML responsibilities who have a basic understanding of anti-money laundering laws and regulations, including BSA officers, compliance officers, auditors, head tellers, and risk managers. While specifically designed for BSA professionals at community

banks with assets of less than 1 billion, this program could benefit those with BSA responsibilities at a financial institution of any size.

For more information and to register, click one of the buttons below, visit our website, download the event guide, or contact Pretty Patel at 515.453.1495 or ppatel@cbiaonline.org. ■

REGISTER NOW | READ EVENT GUIDE

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 Young & Associates to offer Community Bankers for Compliance (CBC), a program that offers the tools and information needed to implement compliance throughout your bank. The complexity of 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 in 2017: March 21-22 & September 26-27. 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 or contact Pretty Patel at 515.453.1495 or ppatel@cbiaonline.org. ■

REGISTER NOW | READ EVENT GUIDE

CBI Offers Over 120 Webinars, New Series for 2017

Get Affordable, Professional Training When and Where You Choose

CBI offers over 120 webinars annually that have become one of the most popular training delivery systems among community bankers. Covering critical issues for every level of the financial institution, industry experts with long-term, real-life, hands-on experience deliver high quality webinars that are exclusively tailored for community bankers. Topics range from auditing & accounting, collections, compliance, HR, lending and more. Also offered are specialized series for directors, emerging leaders, call reports and cybersecurity to name a few.

In 2017 CBI will also offer seven webinar series: Account Documentation Series, ACH Specialist Series, BSA Compliance Series, Director Series, Real Estate Series, Regulation E Series, and Risk Management Series. Visit our Webinars page for more details on each of these informative topics.

CBI webinars have three registration options:

1. **LIVE WEBINAR.** The live webinar option allows you to have one Internet connection from a single computer terminal. You may have as many people as you like listen and watch from your office computer. Registrants receive a website address and pass code that will allow entrance to the seminar. The session will be approximately 90 minutes, including question and answer sessions. Seminar materials, including instructions, pass code, and handouts will be emailed to you prior to the broadcast. You will need the most-current version of Adobe Reader, available free at www.adobe.com.
2. **RECORDED WEBINAR.** Can't attend the live webinar? The recorded webinar is a recording of the live event, including audio, visuals, and handouts. We even provide the presenter's email address so you may ask follow-up questions. Approx. one week prior to the webinar, you will receive an email with the archived webinar link. This webinar link can be viewed anytime 24/7, beginning 6 business days after the webinar and will expire 6 months after the live program date. You will also receive instructions on how to download a digital copy of the webinar which you may keep and use indefinitely. You can also listen to archived webinars on your iPad, iPhone, or Android device!
3. **BOTH LIVE WEBINAR & RECORDED WEBINAR LINK.** Options 1 and 2 described above.

For more information and to view current webinar offerings, visit our Events Calendar. To view all 2017 offerings visit the Webinars page cbiaonline.org and download a schedule. A complete set of listings can also be found in the 2017 CBI Annual Planner and Resource Guide, sent to all CBI members in late December.

Still have questions? Contact Pretty Patel at 515.453.1495 or ppatel@cbiaonline.org. ■

Interactive Teller: Putting People First

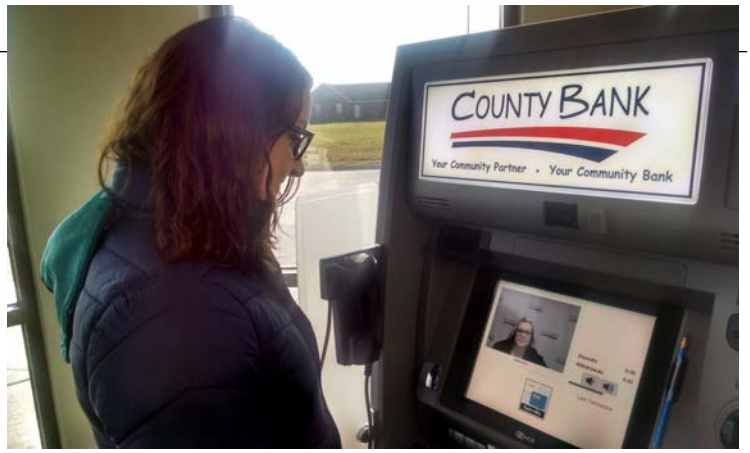
Written By: Josh Banta, Vice President - Data Business Equipment

Four years ago, I wrote an article where I spent the majority of the article describing what an ITM (Interactive Teller Machine) was and how it worked. Due to the success of the technology from NCR Corporation, most have seen one in action so going into detail isn't necessary. Today in the State of Iowa alone, there are 18 financial institutions who have chosen to empower their teller staff with the ability to assist customers remotely. That transformation path has given birth to real success stories because of a willingness to change the status quo when it comes to how the teller line operates.

The ability to maintain the traditional teller model is under tremendous strain. Since 1992, branch transactions have decreased 45% while salaries and benefits have increased by 84%. This has led to an increase in the cost per transaction of 124% according to a study by FMSI. Based on the success of digital offerings, I expect this trend to continue. In a recent study titled "Bankers as Buyers", the authors drew attention to the fact that in 2015 a milestone was crossed. May was the first month in history that more users accessed their financial institution via mobile banking than actually visited a branch. The education of consumers to the do it yourself approach is creating disruption in banking.

Today it would seem that consumers want the best of both worlds. In Timetrade.com's recent survey on "The State of Retail Banking", they asked consumers how they felt about a branch with no tellers. 61% said they would still prefer to speak with a teller. Most banking executives understand the crucial role the teller plays. They provide outstanding service and can be the face of the bank to most customers. To simply remove that face and replace it with a device in the lobby to process transactions is a bridge too far at this point in time. In a 2015 report titled "Reinventing US Retail Banking" by Phoenix Marketing, it was noted that having competent personnel in the branch ranked higher in importance to consumers than fees/pricing or online banking. Following closely in fourth and fifth is having friendly personnel and enough personnel to be properly be assisted. Consumers crave the interaction when they arrive at the branch and they expect it to be outstanding. Action must be taken to bring the technology to the teller role.

It is also important not to discount the factors driving decision making in banks. In "What's Going on 2016" by Cornerstone Advisors, executives of community based financial institutions who were polled identified the need for efficiency as their top priority. Whether it be to streamline workflow or improve their efficiency ratio, executives are focused on finding opportunities through technology to improve the operations of their bank. While most of those dollars are moving to digital banking (online and mobile) the study also found that the number of institutions looking to replace core technologies has doubled since 2015. This points to an understanding that old technologies and the pace of business they allow may no longer be acceptable.



A bank customer uses an Interactive Teller Machine at County Bank in Sigourney, Iowa.

The question remains, are banks and consumers ready to move directly to Self-Service? The "Bankers as Buyers" study I referenced earlier would suggest they are not. Only 9% of the legacy branches surveyed have adapted to total self-service technology in place of traditional means. Of the pilot branches in process at the time of the survey, only 41% percent of those polled are utilizing a service yourself approach in the branch. This would suggest that while technology is playing a key role in the overall offering of the FI, banks have recognized that if a customer visits the branch, a more personal approach is more appropriate.

Interactive Teller can answer many of these challenges. It provides the efficiency of a Self-Service device with the assistance that makes consumers comfortable in essence building a bridge to the future. This assisted self-service model allows banks to begin to move their customers in the direction of Self-Service without shocking the system. The assisted self-service model will continue to grow in the future as software milestones are met. One day the seeds planted by a vibrant Interactive Teller strategy may be leveraged to things like assistance for mobile and online banking users as well as mobile cash withdrawal. These technologies will become one and blur the channel lines for consumers when the customer experience is put in the center of the strategy. A golden opportunity exists to provide these solutions while at the same time lowering the cost to serve.

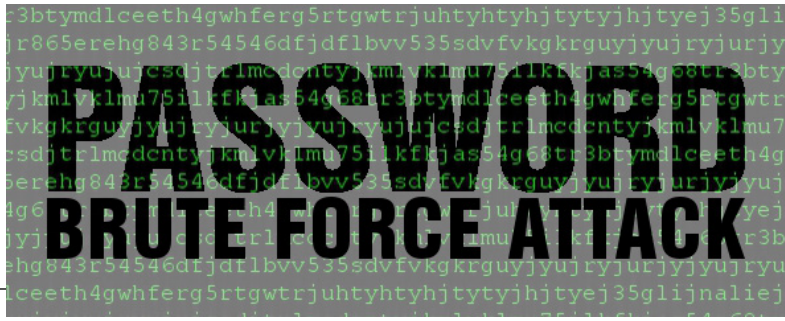
As banks begin their transformation journey, it is important not to discount the role of the teller. With a proper digital strategy, tellers can help move banks to a more efficient model while providing outstanding customer service. ■

For more, contact finsales@databusinessequipment.com or visit databusinessequipment.com\branchofthefuture. CBI Affiliate member Data Business Equipment, Inc. has been providing technology solutions to the banking industry in the Midwest since 1968. DBE is the largest reseller of NCR products in the area, including APTRA Interactive Teller and Digital Insight.

On the Attack

Brute force attack fraud attempts starting to reappear

Written By: Liz Little
Fraud Consultant II
SHAZAM



Is the attack back? After a lull during the first half of 2016, the number of attempted brute force attack fraud cases is on the rise once again.

A brute force attack happens when a fraudster has a cardholder's information. They might have the card number, expiration date and PIN. Most of the information is gathered through phishing the cardholder for information to help perpetrate the attack.

But the fraudster is missing one key element: The three-digit CVV code on the back of the card.

The criminals then use a computer to generate fake card-present transactions, mostly in low dollar amounts. They use bogus retailer names and hope to guess the right CVV code.

Once a processor sends back an approval, they know they've got the right CVV code and they can manufacture a counterfeit card and get cash out of an ATM.

In 2016, the number of attempted brute force attacks SHAZAM detected on our own network nearly tripled in 10 months.

So, if this type of attack is back, it's time to brush up on some old, but helpful security habits.

First, make sure your processor is limiting the number of failed attempts for an invalid CVV. If an attacker is just guessing, a temporary block can give the processor and cardholder time to realize their information is at risk.

A second important component to that temporary block is an alert to the cardholder. A simple heads-up via cellphone or email can head off a brute force attack before the fraudsters get the information they're after.

But, what if the cardholder can't be reached right away to get the problem resolved? Can the fraudsters just count down the minutes until the expiration time and resume their criminal activity?

That's why there's the need for a third important component: An extension of the original temporary card block.

An extension of the block should remain in place until it's physically removed. Think of it as an additional preventative measure.

The good news about these attacks is, despite the uptick, none of them were successful here. That's because more monitoring is being done to protect the cardholder from these criminals. ■

For more than 15 years, Liz has researched fraud trends in the electronic funds transfer (EFT) industry and provided fraud prevention tips to SHAZAM participants. For more information about CBI Endorsed Member SHAZAM Network, visit shazam.net or follow them on Twitter: @SHAZAMNetwork.

Fidelity Bank & Trust Commits to Investing in Parks

IOWA PARKS FOUNDATION

Fidelity Bank & Trust has announced its commitment to invest $35,000 over a 5-year period to support the joint Iowa Park Foundation and State of Iowa's Parks to People pilot region, the Grant Wood Mississippi River Region. The region is comprised of Jackson, Jones and Dubuque Counties.

"Fidelity Bank and Trust's gift is another step forward for our region as we implement our two-year plan. This gift is an investment in the future of our entire region," said Daryl Parker, Jackson County Conservation Director and President of the Grant Wood Mississippi River Region Board.

Dan Zitelman, President of Fidelity Bank & Trust added, "It's important for us to support the quality of life in our region to ensure vibrant communities. We are excited to see the success this initiative has made bringing private and public partners together, and we're happy to join in."

The Parks to People pilot project is a State initiative to create a regional arts, cultural and recreational destination that utilizes the State of Iowa's investment of $1.9 million to leverage private investment. Over the last year the Jackson, Jones and Dubuque County stakeholders have worked to develop a 2-year plan to enhance, promote and sustain the regions assets. This plan, approved in December 2015 by the Iowa Parks Foundation, outlines up to $21 million of enhancements for the region's parks, recreation and natural spaces. Currently the GWMRR has secured $17 million.

Dusty Embree, the Director of the Jones County Economic Development stated, "This regional effort is a real boost to creating communities that entice young families to want to live in our area. New trails and increased recreational opportunities are very important elements to assure local employers that we can attract the workforce they need today and in the future."

The Grant Wood Mississippi River Region's mission is to leverage other community support for this region's wonderful cultural, natural, arts and recreation assets. Anyone in the community can support the many great quality of life projects in their community. You can go to the Region's Facebook page and press the "Donate" button, or visit the Community Foundation's website to see how you can be a part of a specific project.

For more info look for the Grant Wood Loop on Facebook, or contact the Jackson County Economic Alliance: heiar@thejcea.org, (563) 652-4549. ■

Beginning Farmer Regional Workshops

IOWA AGRICULTURAL DEVELOPMENT DIVISION

The Iowa Agricultural Development Division will be hosting a series of free Beginning Farmer Workshops throughout the state. The workshops are open to anyone interested in learning more about beginning farmer programs in Iowa.

Each workshop will contain an overview of USDA-Farm Service Agency and Iowa Finance Authority Beginning Farmer Programs. It also includes CBI's Ag Lender panel discussion, a session offering best practices in preparing loan applications, cash flows, financial statements and more.

Find a workshop location near you (click a location date to view the online registration page):
February 14: Northeastern Iowa Community College, Calmar
February 16: Hawkeye Community College, Waterloo
February 22: Iowa Lakes Community College, Emmetsburg
February 23: Iowa Central Community College, Fort Dodge
February 28: North Iowa Area Community College, Mason City
March 2: Des Moines Area Community College, Ankeny
March 7: Southwestern Community College, Creston
March 9: Indian Hills Community College, Centerville
April 4: Kirkwood Community College, Cedar Rapids
June 6: Muscatine Community College, Wilton

Workshop Agenda

8:30-9:00 a.m. Registration

9:00-9:30 a.m.
USDA-Farm Service Agency Beginning Farmer Programs

9:30-10:15 a.m.
Iowa Finance Authority Beginning Farmer Programs

10:15-10:45 a.m.
Community Bankers of Iowa Ag Lender's Panel Discussion
- Working with and enhancing relationship with an ag lender
- Preparing financial statements, cash flows and loan applications
- Dos and Don'ts to improve your credit scores, etc.

10:45-11:00 a.m.
Follow up and adjourn

For questions, please contact Elizabeth Krugler. ■

SBA Revamps 912 Process

Lenders Able to Clear Most Misdemeanors

SBA has issued SBA Notice 5000-1401 (effective December 15, 2016) which significantly revamps the clearance process for the SBA Form 912.

The notice revises and streamlines the procedures for review and consideration of "Businesses with an Associate of Poor Character" for SBA Advantage (7a) and SBA Grow (504) Loans. While SBA has not changed the requirements surrounding who must complete SBA Form 912, SBA has changed the types of offenses that will require a background check to be conducted by SBA. ***Lenders will now be able to clear most misdemeanor issues themselves, which will reduce delays in the loan application process.***

As a reminder, in order to be eligible for an SBA loan, every proprietor, general partner, officer, director, managing member of a limited liability company (LLC), owner of 20% or more of the equity of the Applicant, Trustor (if the Small Business Applicant is owned by a trust), and any person hired by the Applicant to manage day-to-day operations ("Subject Individual") must be of good character. Part of the character evaluation process involves answering Questions 1, 2, and 3 on SBA Form 1919, "Borrower Information Form."

- If an individual responds "Yes" to Question 1 on SBA Form 1919 that the individual is currently under indictment, etc., the Small Business Applicant is not eligible for an SBA loan.

If the individual's response to Question 3 on SBA Form 1919 reveals that they are currently on parole or probation (including probation before judgment), the Small Business Applicant is not eligible for an SBA loan. In addition, an individual with a deferred prosecution is treated as if the individual is on probation or parole and is not eligible for an SBA loan.

- If a Subject Individual responds "Yes" to Questions 2 or 3 on the Form 1919 ***a character determination will be required.***

In the past, this entailed sending the SBA Form 912 to the District Office to begin the clearance process. This has changed.

Under the revised rules, an individual who is required to complete a Form 912, must also complete a written detailed statement of offenses. This written statement must include the following:

- Date of the offense(s) - include all previous arrests
- City and state or the county and state where the offense(s) occurred.
- The specific charge(s) AND the level of the charge; DUI, assault, forgery, etc. (either a misdemeanor or felony).
- Disposition of the charge(s). This may include but is not limited to the following:
- Any fines imposed; (ii) Any class or workshop to be attended; (iii) Any jail time served; (iv) If applicable, the terms of probation (including evidence and dates of successful conclusion of the probation); or (v) Any other court conditions (such as registration as a sex offender).
- The applicant should state that all conditions of the court have been satisfied in the explanation and provide court documents evidencing that these conditions were met.
- The borrower's dated signature on the explanation within 90 days of submission.

If all disclosed crimes were *misdemeanors* dispositioned by the court more than 6 months ago and there were no convictions for crimes against minors, Lenders can now continue with the loan process with no further 912 review required. Lenders will be required, however, to retain the complete 912 package in the loan file.

ONLY Felony convictions, convictions dispositioned less than 6 months ago and crimes against minors will require SBA review. While delegated lenders will be able to submit 912 packages directly to SBA, we recommend submitting them to our office. Anytime a review is required, a complete 912 package should include:

- Lender's cover letter
- SBA Form 912
- Statement of Offenses
- Fingerprint Card (FD258) or electronic version
- Court documents supporting that all conditions of the court have been satisfied.

The Iowa District Office will have a training session after the First of the Year (TBD) on the new 912 process, including tools available for conducting background checks, obtaining supporting documents, etc. ***In the meantime, please see SBA Notice 5000-1401.***

For questions, contact Dave Lentell at (515) 284-4522 or at thomas.lentell@sba.gov. ■

Iowa Dept. of Cultural Affairs Asks Iowans to Share Their Stories

IOWA DEPARTMENT OF CULTURAL AFFAIRS

The Iowa Department of Cultural Affairs has launched a new social media campaign that showcases Iowa, and asks Iowans to share their best stories about the state's art, history, film and culture.

The #NotToBrag campaign kicked off with a two-and-a-half minute video featuring a few famous and not-so-famous Iowans talking about the people, places and points of pride that define our state, including Norman Borlaug, Grant Wood, Simon Estes, Frank Lloyd Wright's hotel in Mason City, the Iowa Writers' Workshop, Iowa State University's invention of the digital computer, and much more. In less than 48 hours, the new video racked up more than 100,000 views on Facebook.

"We've had so many conversations with Iowans across the state, and it's clear that towns across the map have too many of their own best-kept secrets," Iowa Department of Cultural Affairs Director Mary Cownie said. "This campaign gives them a chance to share those stories online in a significant way. It gives them a license to brag."

The new campaign will feature a series of videos produced by the Department of Cultural Affairs that brag about milestones, accomplishments and achievements related to Iowa culture. So Iowans are encouraged to create and post their own "Not to Brag" videos and post them online with the campaign hashtag: #NotToBrag. No topic is too big, small or unusual.

The campaign rolled out in conjunction with the state's 170th birthday on Dec. 28, and aims to unlock the knowledge of Iowans and the DCA staff, engaging the entire state through the stories we share in common and building partnerships between the department, communities, organizations and individual Iowans.

Got something to brag about? Go ahead and post a photo, video or just a simple note online with the campaign hashtag #NotToBrag. ■

Chairs named to Iowa House, Senate

The 87th Iowa General Assembly has chosen committee leaders and members for both the Iowa House of Representatives and the Senate. Speaker of the Iowa House Rep. Linda Upmeyer (R-Clear Lake) announced that Rep. Guy Vander Linden (R-Oskaloosa) takes over as chair of the Ways and Means Committee as the previous chair, Rep. Tom Sands (R-Wapello), is entering retirement. Rep. Jane Bloomingdale (R-Northwood) will serve as vice chair of the Ways and Means Committee. The Commerce Committee will be chaired by Rep. Peter Cownie (R-West Des Moines), and Rep. Ashley Hinson (R-Marion) will serve as vice chair.

Sen. Bill Dix named chairs, vice chairs and members of the standing committees for the 87th Iowa Senate. Two committees of interest to the banking industry are the Commerce Committee and the Ways and Means Committees. Sen. Bill Anderson was named chair of the Commerce Committee and Sen. Michael Breitbach will serve as vice chair. Sen. Randy Feenstra was appointed chair of the Ways and Means Committee, and Sen. Jerry Behn will serve as vice chair. ■

Full List: 87th Iowa House committee chairs
Full List: 87th Iowa Senate committee chairs and members

Updated Accounting Standards Released for BOLI and COLI

Written By: Jake Stoetzner
Director of Operations
Executive Benefits Network

The Financial Accounting Standards Board ("FASB") recently released an update that clarified guidance for owners of Corporate Owned Life Insurance ("COLI") and Bank Owned Life Insurance ("BOLI") regarding how to record cash proceeds from such policies.

In Accounting Standards Update 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, the FASB addressed the COLI/BOLI issue, along with 7 other specific clarifications, in which current Generally Accepted Accounting Principles ("GAAP") offered unclear guidance or no specific direction at all.

What was at issue?
Prior to the release of the update, there was no consensus approach under GAAP to record cash payments from the settlement of COLI and BOLI policies. COLI and BOLI are commonly used by public and private entities to hedge against the rising cost of salary and benefit expenses, including nonqualified executive compensation, provide key person protection and as a cash alternative investment. COLI and BOLI are generally purchased by the company on the lives of select management and/or key employees. The company is the primary payor and beneficiary when cash proceeds from the life insurance policies are received following the death of the insured.

As the task force noted:

> "the primary benefits of using an insurance policy as a funding mechanism is the ability for an entity to receive the death benefits tax-free. Investment income is accumulated tax-free through the internal build-up of the cash surrender value."

Prior to the release of Update 2016-15, there was no clarification as to how to record the cash payment on the company's or bank's cash flow statement. The prior wording of FASB's Statement of Cash Flows suggested that cash proceeds from any type of insurance settlement should be characterized as a cash inflow from operating activities.

What is the guidance?
The updated guidance issued on August 29, 2016, specifically directed that cash proceeds from COLI and BOLI policies shall be classified as cash receipts from investment activities.

FASB stated that:

> "[c]ash proceeds received from the settlement of corporate-owned life insurance policies should be classified as cash inflows from investing activities."

In more specific terms, corporations and banks that own COLI and BOLI policies on key executives and receive cash payments from an insurance carrier following the death of such executive can now record those proceeds similar to other investment activity. Proceeds from the disposition of long term assets, such the sale of equity and debt instruments, have long been characterized as cash from investment activities.

The recognition by FASB of proceeds from COLI and BOLI policies as cash from investment activities is consistent with their characterization of other investment activities. In addition to key person insurance, COLI and BOLI policies typically provide consistent levels of tax-deferred income during the life of a key employee. The death of that key employee is the specific critical event that measures the revenue (ie, recognition) of such a policy. The Task Force noted as such: "corporate-owned life insurance policies generally have both a term insurance component, which would be an income replacement, and an investment component, which would facilitate the growth of capital."

FASB further noted that cash payments for premiums on COLI and BOLI policies may be characterized as cash outflows for investing activities, operating activities or a combination of investing and operating activities. This leaves it at the discretion of the company or bank to make the determination at the time of the initial purchase of the life policy as to what the underlying purpose of the COLI/BOLI is. For example, a policy acquired for pure key person protection would likely be classified as an outflow from operating activities under GAAP, whereas BOLI/COLI purchased to purely offset salary and benefit expenses might be classified on the cash flow statement as an outflow for investing activities. Mixed use purchases would be classified accordingly.

Interestingly, the task force specifically excluded inflows from COLI and BOLI policies from other lump sum settlements derived from other types of insurance coverage. The updated noted, "cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage (that is, the nature of the loss). For insurance proceeds that are received in a lump sum settlement, an entity should determine the classification on the basis of the nature of each loss included in the settlement."

How does this affect corporations and banks that currently own COLI and BOLI?
EBN has long taken the view that BOLI and COLI inflows and outflows could be characterized differently from other types of insurance owned by business entities. A BOLI or COLI policy is inherently different from business interruption insurance or other types of policies that are commonly owned by an enterprise.

These standards under GAAP will go into effect over the next several years. For public business entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. ■

For more information on CBI Endorsed Member Executive Benefits Network's products and services, contact Managing Director Pat Marget at pmarget@ebn-design.com or 414-431-9681, or visit www.ebn-design.com.

The Federal Reserve's Discount Window:

What It Is and How It Works

by Pam Hendry, Director, Credit and Risk Management, Federal Reserve Bank of Atlanta

Lending at the Federal Reserve's Discount Window[1] serves two primary functions: (1) as a backup source of liquidity that individual depository institutions can use when faced with temporary, unforeseen changes in their asset and liability structure and (2) as a complement to open market operations in achieving the target federal funds rate by making Federal Reserve balances available to depository institutions when the normal functioning of financial markets is disrupted.

Being prepared to borrow from the Discount Window can be an important component of a depository institution's planning for both strategic and contingency purposes. Depository institutions that do not envision using the Discount Window in the ordinary course of events are encouraged to execute the necessary documents for contingency purposes because a need for Discount Window credit could arise suddenly and unexpectedly.

This article provides basic information on the Discount Window,[2] including the types of borrowing programs available; interest rates; eligibility criteria; and borrowing arrangements, such as documentation, acceptable collateral, and collateral margins.

Types of Borrowing Programs Available

Primary Credit

Primary credit is available to generally sound depository institutions on a very short-term basis, typically overnight. Depository institutions are not required to seek alternative sources of funds before requesting occasional advances of primary credit. The Federal Reserve expects that depository institutions will use the Discount Window as a backup rather than as a regular source of funding, given the above-market pricing of primary credit.

Primary credit may be used for any purpose, including financing the sale of federal funds. The primary credit program complements open market operations in the implementation of monetary policy by making funds readily available at the primary credit rate when there is a temporary shortage of liquidity in the banking system, thus capping the actual federal funds rate at or close to the primary credit rate.

Reserve Banks ordinarily do not require depository institutions to provide reasons for requesting very short-term primary credit advances. Rather, borrowers are asked to provide only the minimum information necessary for the Reserve Bank to process a loan, which is usually the amount and term of the loan. If the pattern of borrowing or the nature of a particular borrowing request strongly indicates that a depository institution is not in generally sound financial condition, the lending Reserve Bank may seek additional information.

Primary credit may be extended for periods of up to a few weeks to small depository institutions in generally sound financial condition that are experiencing short-term funding difficulties or cannot obtain temporary funds in the market at reasonable terms. Large- and medium-sized depository institutions generally have access to market funds to meet their temporary funding needs. Longer term extensions of credit are subject to increased administration as determined by the lending Reserve Bank.

Secondary Credit

Secondary credit may be available to depository institutions that are not eligible for primary credit. The secondary credit program entails a higher level of Reserve Bank administration and oversight than the primary credit program. This type of credit is also extended on a very short-term basis, typically overnight. However, in contrast to primary credit, there are restrictions on the uses of secondary credit. Secondary credit is available to meet backup liquidity needs when its use is consistent with helping a depository institution return to market funding sources or the orderly resolution of a troubled institution. Secondary credit may not be used to fund an expansion of the institution's assets.

Seasonal Credit

The Federal Reserve's seasonal credit program is designed to assist small depository institutions in managing liquidity needs that arise above their regular swings in loans and deposits caused by seasonal types of businesses such as construction, college, farming, resort, tourism, and municipal financing. A depository institution may qualify for up to nine months of seasonal credit during the calendar year to assist in meeting the needs of the local communities where it operates.

Interest Rates on Primary, Secondary, and Seasonal Credit

Reserve Banks' boards of directors establish the primary credit rate at least every two weeks, subject to review and determination by the Board of Governors. The interest rates applied to primary and secondary credit change periodically to complement changes in the Federal Open Market Committee's (FOMC) target for the federal funds rate and to achieve broad monetary policy goals (see the table above). The interest rate applied to seasonal credit is a floating rate based on market rates.

Eligibility to Borrow

By law, depository institutions that maintain reservable transaction accounts or nonpersonal time deposits (as defined in the Board's Regulation D) may establish borrowing privileges at the Discount Window. Eligibility to borrow is not dependent on or related to the use of Federal Reserve priced services.

U.S. branches and agencies of foreign banks that hold reserves are eligible to borrow under the same general terms and conditions that apply to domestic depository institutions. Foreign banks with more than one branch or agency operating in the United States may have access to the Discount Window in more than one Reserve Bank District. Any Discount Window loan to those branches or agencies will be made by the Reserve Banks where the borrowing branches or agencies maintain accounts. Reserve Banks coordinate and monitor lending to such branches and agencies on a nationwide basis.

Table: Summary of Interest Rate Setting by Type of Borrower

Lending Program	Eligible Borrowers	Setting of Interest Rate[a]
Primary credit	Depository institutions (DIs) in generally sound financial condition	Recommended by the boards of directors of the Reserve Banks and approved by the Board of Governors; currently 50 basis points above the top of the range for the FOMC's target federal funds rate[b]
Secondary credit	DIs that do not qualify for primary credit	Spread above the primary credit rate, currently 50 basis points
Seasonal credit	Smaller DIs with a regular seasonal need for funds	Average of the effective federal funds rate and the three-month CD rate, typically resulting in a rate close to the federal funds rate target

[a]Current and historical primary, secondary, and seasonal rates are available at www.frbdiscountwindow.org/en/Pages/Discount-Rates/Current-Discount-Rates.aspx.
[b]Rates for all programs are proposed by the board of directors of the lending Reserve Bank and approved by the Board of Governors of the Federal Reserve System.

Bankers' banks, corporate credit unions, and other financial institutions are not required to maintain reserves under the Board's Regulation D and therefore do not have regular access to the Discount Window. However, the Board of Governors has determined that such institutions may obtain access to the Discount Window if they voluntarily maintain reserves. (Refer to Regulation D for more details.[3])

Eligibility for the Credit Programs

Primary Credit

A depository institution must be in generally sound financial condition, as determined by its Reserve Bank, to qualify for primary credit. A Reserve Bank reviews a depository institution's condition on an ongoing basis using supervisory ratings and capitalization data. Supplementary information, when available, may also be used. Criteria used in determining whether an institution is in generally sound financial condition include but are not limited to:

- An institution assigned a composite CAMELS rating of 1, 2, or 3 (or SOSA 1 or 2 and ROCA 1, 2, or 3) that is at least adequately capitalized is eligible for primary credit unless supplementary information indicates that the institution is not generally sound.[4]
- Institutions assigned a composite CAMELS rating of 4 (or SOSA 1 or 2 and ROCA 4 or 5) are not eligible for primary credit unless an ongoing examination or other supplementary information indicates that the institution is at least adequately capitalized and that its condition has improved sufficiently to be deemed generally sound by its Reserve Bank.
- Institutions assigned a composite CAMELS rating of 5 (or SOSA 3 regardless of ROCA) are not eligible for primary credit.

Secondary Credit

Depository institutions that do not qualify for primary credit may be eligible for secondary credit when the use of such credit is consistent with a timely return to a reliance on market sources of funding or the orderly resolution of a troubled institution. A Reserve Bank must have sufficient information about a depository institution's financial condition and reasons for borrowing to ensure that an extension of secondary credit would be consistent with the purpose of the facility.

Note that there are restrictions on lending to undercapitalized depository institutions: The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA)[5] amended the Federal Reserve Act to restrain extensions of Federal Reserve credit to an FDIC-insured depository institution that has fallen below minimum capital standards or has received a composite CAMELS rating of 5 (or its equivalent) from its federal regulator. Such depository institutions may request secondary credit, but Federal Reserve lending to a depository institution that is undercapitalized, significantly undercapitalized, or rated a composite CAMELS 5 (or its equivalent) is generally limited to 60 days in any 120-day period. Ordinarily, a depository institution that is critically undercapitalized may receive Discount Window credit only during the five-day period that begins on the day it becomes critically undercapitalized. Reserve Banks apply the same rules to depository institutions that are not insured by the FDIC but that are otherwise eligible to borrow at the Discount Window.

Any depository institution subject to one of the above-mentioned limits should maintain liquidity sufficient to keep its needs for Discount Window credit within appropriate bounds. If it appears that liquidity may prove inadequate, the depository institution should consult with its Reserve Bank as far in advance as possible. Such consultations may also include discussions of collateral arrangements needed to ensure the orderly continuation of Federal Reserve payment services.

Seasonal Credit

To become eligible for seasonal credit, a depository institution must establish a seasonal qualification with its Reserve Bank. Eligible institutions are generally limited to those with deposits less than $500 million. A depository institution that anticipates a possible need for seasonal credit is encouraged to contact its Reserve Bank to ascertain its eligibility and make arrangements in advance. Making arrangements does not obligate the institution to borrow.

Critically undercapitalized depository institutions are not eligible for seasonal credit. Undercapitalized or significantly undercapitalized depository institutions may be eligible but only after careful review of their condition and prospects; any lending to such institutions would be subject to statutory limitations established by the FDICIA as discussed earlier under Secondary Credit.

Documentation Requirements for Borrowing

Any depository institution that expects to use the Discount Window should file the necessary lending agreements and corporate resolutions under the terms set forth in the Federal Reserve's lending agreement, Operating Circular No. 10.

Operating Circular No. 10 documents include:

- **Letter of Agreement** — indicates a depository institution's acceptance of the terms and conditions in Operating Circular No. 10
- **Authorizing Resolutions for Borrowers** — provides a depository institution's authorization to borrow from and pledge assets to a Reserve Bank
- **Official OC-10 Authorization List** — a list of individuals or corporate titles of individuals who are authorized to borrow, pledge, or withdraw collateral as specified in the depository institution's Authorizing Resolutions for Borrowers
- **Letter of Agreement to Correspondent Credit and Payment Agreement** — required only if the depository institution does not have a Federal Reserve account and a correspondent is selected to receive Discount Window advances and make payments on the depository institution's behalf
- **Certificate** — provides the Reserve Bank with all the necessary information to make an effective Uniform Commercial Code-1 financing statement filing against the borrower. Note: This document may not be required; contact the respective Reserve Bank for more information.

(***Fed Discount Window*** *continued on page 22)*

Still Having Fun

Written By: Rebeca Romero Rainey, Chairman of ICBA

From the TOP

One of the great honors of serving on ICBA's executive committee is the opportunity to attend and speak at state banking association conventions all across the country. It's important to get out and meet fellow independent bankers face-to-face and see how they do business.

Years ago, the very first state association meeting I spoke at was before the South Dakota Community Bankers. Back then I encountered Dick Behl, Jack Hopkins and Greg McCurry (who was less than one week into the job), all of them dressed in Harley biker garb! This year, Ed Cooney, the outgoing chairman of the Community Bankers of Georgia, wore flippers and a snorkel and mask on stage and did a full monologue from the movie Caddyshack as part of his address during the association's convention. As the board members of the Community Bankers of Iowa started their annual meeting this year entitled "Navigating the Future," they all proceeded on stage dressed as the characters from Gilligan's Island setting sail! Independent bankers indeed!

The attire and costumes may be different at each gathering, but the commitment, passion and dedication to our industry, our communities and our customers is the same wherever I go. We are bound together by common missions and desires, but we can also flourish within our own industry with our own independent style.

As I have traveled I have seen the different faces of leadership. I have seen the different faces of passion and dedication. I have heard loud and clear about hurdles we all face, but, more importantly, I have also heard stories of resiliency and success. I know firsthand how hard the work can be, but I see community bankers having fun in their banks, having fun at their conventions, and loving the good that we do for our customers.

Don't let anybody discourage you from having fun! Don't let anyone stereotype you or your community bank. Don't shy away from being a leader in your community or our industry. Laugh, engage, energize! Don't be afraid that not mirroring the "too big to fail" megabank will hurt you. Your uniqueness, your authenticity, your independence in your marketplace are your greatest strengths. We, as community bankers, have proven over and over again that our business model and core values will always prevail.

You have opportunity. Even in the face of regulatory burden and an unlevel playing field, you have opportunity to differentiate yourself and to lead. The Maryland Bankers Association's convention theme this year was "See the Possible." The Indiana Bankers Association's event theme was "Balancing Act: Walking the Fine Line between Challenge and Opportunity."

"We, as community bankers, have proven over and over again that our business model and core values will always prevail."

Great possibilities continue in all of our unique marketplaces, where opportunities intermix with the challenges. And community banks have momentum. By being engaged, by working together, by working with ICBA, we can address the hurdles that face our industry. Then you can focus on helping your customers, whether it be in black leather chaps or flippers and snorkel... but maybe pass on that three-hour tour. ■

Rebeca Romero Rainey is chairman and CEO of Centinel Bank of Taos, in Taos, N.M. Follow her on Twitter at @romerorainey.

Positioned for Progress

Written By: Camden Fine, President and CEO of ICBA

FINE POINTS

The pundits and pollsters—"a tale told by an idiot, full of sound and fury, signifying nothing"—didn't see it coming. In defiance of nearly every election model and electoral college projection, Donald Trump won a decisive victory while Republicans retained control of both the Senate and House of Representatives.

"[for] the nation's community banks, radical change in Washington will mean an exceptionally busy year, but also a period of potential positive breakthroughs."

America's electoral majority has spoken, and they've demanded change. It's to be President Trump, a proud political outsider with experience in boardrooms instead of policy briefings. Trump's historic triumph not only flipped the electoral map—delivering Upper Midwest states long held by Democrats—it served as a repudiation of the status quo and an unmistakable call for more limited government.

ICBA and community bankers are well-positioned to take advantage of this new mandate. Republican control of the executive and legislative branches presents a unique opportunity to advance meaningful regulatory relief that will help our industry continue fostering economic and job growth at the local level. We fully intend to leverage this opportunity for the benefit of community banks and the communities they serve.

United Republican control of both branches will set in motion a whirlwind of policy action in 2017. The newly elected president and GOP lawmakers—if they work together and across the aisle—can break longstanding policy gridlocks, reverse government overregulation and deliver the meaningful change voters have demanded. The incoming president has proposed a new governing order in which adopting any new regulation will require first eliminating two existing regulations. This is a harbinger of good news for ICBA's nonpartisan agenda of regulatory and tax relief.

Meanwhile, Congress remains full of pro-community bank lawmakers. In the 2016 cycle, our nonpartisan Independent Community Bankers Political Action Committee used $1.9 million in contributions to support more than 300 federal candidates and committees at a 95 percent success rate. A key component of our strategy was outreach to candidates with community banking ties. ICBPAC funds supported the campaigns of several community bank board members, including Dr. Neal Dunn (R-Fla.) of Summit Bank in Panama City, Scott Angelle (R-La.) of Farmers Merchants Bank and Trust in Breaux Bridge, and Dr. Roger Marshall (R-Kan.) of Farmers Bank and Trust in Great Bend. Amid the chaotic reshuffling of committee assignments and new-member orientations next month, community banks are positioned to get down to work on day one of the new Congress.

For ICBA and the nation's community banks, radical change in Washington will mean an exceptionally busy year, but also a period of potential positive breakthroughs. ICBA and community bankers enjoy strong and positive relationships with policymakers on both sides of the aisle. We look forward to working with both parties under the new regime in Washington to make meaningful reforms that will support local communities, job creation and economic prosperity nationwide. ■

Following Mr. Fine

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

Main Street Rural Economic Survey

Rural Mainstreet Index Still Weak for November: Negative Cash Flows for One-Fifth of Livestock Farmers

November Survey Results at a Glance:

- For a 15th straight month, the Rural Mainstreet Index fell below growth neutral.
- Farmland prices decline for 36th straight month.
- More than seven of 10 bank CEOs indicated that their bank had increased collateral requirements as a result of declining farm income.
- More than one of four bank CEOS indicated that their bank has made no lending changes due to falling farm income.
- More than one-fifth of livestock producers are expected to report negative cash flow for 2016 (cash expenses above cash revenues).
- States trending higher: Iowa and South Dakota; States trending lower: Colorado, Kansas, Illinois, Missouri, North Dakota and Wyoming; States treading water: Minnesota, Nebraska.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index remained weak with a reading again below growth neutral for the 15th 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 rose to 36.6 from October's 31.8.

"Farm commodity prices continue to slam Rural Mainstreet economies. Over the past 12 months, livestock commodity prices have tumbled by 27.2 percent and grain commodity prices have slumped by 16.6 percent. The economic fallout from this price weakness continues to push growth into negative territory for seven of 10 states in the region," said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

On average, bankers expect one of five livestock producers, or 20.7 percent, to experience 2016 cash expenses greater than cash revenues. "This is approximately the share of grain farmers with expected negative cash flows for the year," said Goss.

States trending higher: Iowa and South Dakota; States trending lower: Colorado, Kansas, Illinois, Missouri, North Dakota and Wyoming; States treading water: Minnesota, Nebraska.

On a more positive note, Michael Flahaven, president of Wenona State Bank in Wenona, Ill., said, "A generous government payment this fall helped keep some farmers' cash flow on the positive side."

Farming and Ranching: The farmland and ranchland-price index for November climbed to a frail 30.8 from October's 25.0. This is the 36th straight month the index has languished below growth neutral 50.0.

The November farm equipment-sales index increased to 15.4 from 13.1 from October. "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 and is not improving," said Goss.

Banking: Borrowing by farmers remains solid as the November loan-volume index fell to 52.4 from last month's 71.6. The checking-deposit index climbed to 67.1 from 63.7 in October, while the index for certificates of deposit and other savings instruments expanded to 46.4 from 40.9 in October.

This month bankers were asked to estimate farm loan defaults rate. And just as in July when the same question was asked, bankers expect loan default rates were approximately equal to 5.0 percent for the next year. As a result of falling farm income, 29.3 percent of bankers have made no changes to their lending practices.

Hiring: After moving below growth neutral 50.0 for three of the past four months, the job gauge climbed to 52.5 from October's 45.4. For the region, Rural Mainstreet employment is down by 1 percent over the past 12 months. Over the same period of time, urban employment for the region expanded by 1.5 percent.

Confidence: The confidence index, which reflects expectations for the economy six months out, was up substantially to 39.0 from October's 21.6 but still indicating an intensely pessimistic outlook among bankers. "Continuing weak grain and livestock commodity prices pushed banker's economic outlooks to November's and October's frail readings," said Goss.

Home and Retail Sales: Home sales remain the positive indicator of the Rural Mainstreet economy with a relatively strong 58.8 reading for November which was up from October's 50.1 reading. The November retail-sales index increased to a very weak 37.8 from October's 36.3.

"Despite low inventories of homes for sale, Rural Mainstreet home sales continue on a positive trajectory, but rural retailers, much like their urban counterparts, are experiencing downturns in sales," said Goss.

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent portions of a 10-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. The survey is supported by a grant from Security State Bank in Ansley, Neb.

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 10 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. Goss and Bill McQuillan, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

Colorado: Colorado's Rural Mainstreet Index (RMI) sank to 51.2 from 68.5 in October. The farmland and ranchland-price index fell to 48.5 from October's 59.7. Colorado's hiring index for November rose slightly to 53.9 from October's 53.1. Colorado job growth over the last 12 months; Colorado Rural Mainstreet, 1.0 percent; Urban Colorado, 2.9 percent.

Illinois: The November RMI for Illinois slumped to 26.6 from 27.5 in October. The farmland-price index expanded to a frail 26.8 from October's 15.6. The state's new-hiring index climbed to 51.5 from last month's 42.8. Said Jim Eckert president of Anchor State bank in Anchor, "Farmland sales in our area are much weaker than a year

(*Rural Mainstreet* continued on next page)

Tables 1 & 2 summarize survey findings

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

	November 2015	October 2016	November 2016
Area economic index	50.0	44.4	43.7
Loan volume	56.2	71.6	59.6
Checking deposits	57.9	51.2	70.7
Certificates of deposit and savings instruments	37.5	40.9	51.1
Farmland prices	30.0	31.0	34.8
Farm equipment sales	18.6	10.8	14.2
Home sales	51.0	58.1	56.5
Hiring	61.9	52.4	52.1
Retail business	50.0	44.4	43.7
Confidence index (area economy six months out)	44.7	42.1	38.9

Table 2: The Rural Mainstreet Economy, November 2016	Percentage of bankers reporting				
	0% - 4%	5% - 14%	15% - 24%	25% - 29%	Over 29%
What percentage of livestock producers in your area are projecting negative cash flow for 2016:	2.6%	10.3%	10.3%	10.3%	35.9%
	No change	Increase Rejection Rates	Increased interest rates	Reduced size of farm loans	Increased Collateral Requirements
Which of the following has been your bank's response to weak farm income (more than one may apply):	28.2%	15.4%	12.8%	7.7%	71.8%
	Up modestly (10% - 20%)	Up somewhat (1% - 9%)	Unchanged (-0.9% - +0.9%)	Down somewhat	
Regarding farm loan defaults in your area over the NEXT year, what do you expect?	12.2%	58.5%	29.3%	0.0%	

For historical data and forecasts, visit: www.creighton.edu/economicoutlook
For ongoing commentary on recent economic developments, visit: www.economictrends.blogspot.com
Follow Ernie Goss on Twitter www.twitter.com/erniegoss

(***Rural Mainstreet*** *continued from previous page)*

ago. Prices are softer and even buyers of substantial means are holding off, expecting even lower prices. Illinois job growth over the last 12 months; Illinois Rural Mainstreet, -0.7 percent; Urban Illinois 0.9 percent.

Iowa: The November RMI for Iowa soared to 72.1, a regional high, from October's 67.1. Iowa's farmland-price index for November increased to 56.6 from 47.8 in October. Iowa's new-hiring index for November advanced to a strong 66.2 from October's 58.7. According to James Brown, CEO of Hardin County Savings Bank in Eldora, "Cash rents are down $25 to $50 per acre in some cases, but many are closer to what they were last year. If commodity prices stay in this range there will be more significant decreases next year." Iowa job growth over the last 12 months; Iowa Rural Mainstreet, 2.4 percent; Urban Iowa, 0.8 percent.

Kansas: The Kansas RMI for November slumped to 22.5 from October's 25.7. The state's farmland-price index for November increased to a feeble 25.6 from 18.9 in October. The new-hiring index for Kansas grew to 49.1 from 42.5 in November. Kansas job growth over the last 12 months; Kansas Rural Mainstreet, -1.5 percent; Urban Kansas, 0.2 percent.

Minnesota: The November RMI for Minnesota tumbled to 24.4 from October's 26.3. Minnesota's farmland-price index climbed to 27.7 from 23.8 in October. The new-hiring index for the state expanded to a solid 55.7 from last month's 50.0. Minnesota job growth over the last 12 months; Minnesota Rural Mainstreet, -0.8 percent; Urban Minnesota 1.9 percent.

Missouri: The November RMI for Missouri decreased to 27.6 from 28.9 October. The farmland-price index fell to 20.9 from October's 25.8. Missouri's new-hiring index rose to 29.1 from 18.7 in October. Missouri job growth over the last 12 months; Missouri Rural Mainstreet, -5.6 percent; Urban Missouri 2.1 percent.

Nebraska: The Nebraska RMI for November fell to 37.9 from October's 51.1. The state's farmland-price index tumbled to 45.5 from October's 39.0. Nebraska's new-hiring index climbed to 59.5 from 55.5 in October. Nebraska job growth over the last 12 months; Nebraska Rural Mainstreet, 0.1 percent; Urban Nebraska, 1.2 percent.

North Dakota: The North Dakota RMI for November expanded to a very frail 28.9 from October's 20.2. The farmland-price index increased to 27.3 from October's 18.2. North Dakota's new-hiring index improved to 30.7 from 19.2 in October. North Dakota job growth over the last 12 months; North Dakota Rural Mainstreet, -5.1 percent; Urban North Dakota, 0.8 percent.

South Dakota: The November RMI for South Dakota fell to 47.1 from October's much healthier 60.6. The farmland-price index expanded to 45.5 from October's 42.3. South Dakota's new-hiring index jumped to 62.2 from October's 56.7. South Dakota job growth over the last 12 months; South Dakota Rural Mainstreet, 0.7 percent; Urban South Dakota, 3.3 percent.

Wyoming: The November RMI for Wyoming was unchanged for the month with a reading of 19.8 for November. The November farmland and ranchland-price index increased to 23.8 from October's 12.5. Wyoming's new-hiring index expanded to 45.4 from October's 39.9. Wyoming job growth over the last 12 months; Wyoming Rural Mainstreet, -2.9 percent; Urban Wyoming, -3.8 percent. ■

Save On Equipment Costs with the Dell Member Purchasing Plan

Dell has great 4th quarter deals designed to save you money on essential tools you use every day, with no-hassle and the convenience of shopping from your office, home or anywhere in-between. Double-down on specials now through the end of January 2017, and choose the time - or year - that's best for your budget.

Now is a great time to pass information to your staff and small business customers who are eligible for the same savings. Exclusive pricing and options are available for professional and personal needs.

Current exclusive offers for CBI members:

DISCOUNT OFFER	COUPON EXPIRES	COUPON CODE
Save an extra 15% off select **OptiPlex** desktops	1/14/2017	**TRIPLEDISCOUNT**
Save an extra 15% off select **Latitude** laptops	1/14/2017	**TRIPLEDISCOUNT**
Save an extra 15% off select **XPS** desktops	1/14/2017	**TRIPLEDISCOUNT**
Save an extra 15% off select **XPS** laptops	1/14/2017	**TRIPLEDISCOUNT**
Save an extra 6% off select **Inspiron** desktops	1/14/2017	**TRIPLEINSPIRON**
Save an extra 6% off select **Inspiron** laptops	1/14/2017	**TRIPLEINSPIRON**
Save an extra 20% off select **Precision Workstations** $899 and up	1/28/2017	**DOUBLEWORKSTATION**
Save an extra 20% off select **PowerEdge Servers** $899 and up	1/28/2017	**DOUBLESERVER**
Save an extra 10% off select **Dell PowerConnect Switches**	1/28/2017	**DOUBLESWITCH**
Save an extra 5% off select **Dell Electronics & Accessories**	2/06/2017	**STACK5%**

Rules and exclusions may apply to all offers. For more information and to take advantage of the program, visit the ICBA Member page at Dell.com/ICBA. Need help? Call the Member service line at 1-800-757-8442 to speak with a Dell representative. To maximize your savings, be sure to include the unique CBI/ICBA Member ID #141351622 when placing your order. ■

Get Free Compliance Updates Every Month


Regulatory Compliance Update

CBI

December 2016

Around the Agencies 2
Publications, reports, studies, testimony & speeches 9
Selected federal rules proposed since last Compliance Update 11
Selected federal rules recently adopted since last Compliance Update 12
Selected federal rules – Upcoming effective compliance dates 13
Selected federal rules – Recent effective dates 15
How to submit comments to your federal regulators 18
Common words, phrases, and acronyms 19

Community Bankers of Iowa
1603 22nd Street, Suite 102
West Des Moines, Iowa 50266
Phone: 515.453.1495
Fax: 515.453.1498
www.cbiaonline.org

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. CBI's *Regulatory Compliance Update* newsletter provides regulatory and compliance news, publications and reports, selected upcoming federal compliance dates, information on how to submit comments to federal regulators, and more. It is a monthly journal with detailed summaries, a community banking legal perspective on issues and direct links to action items.

Some of the topics covered include:

- Joint federal agency issuances;
- CFPB actions;
- FDIC actions;
- OCC actions;
- Federal Reserve actions;
- Selected federal rules proposed and adopted;
- Upcoming effective dates for selected federal rules.

Subscribing to the Regulatory Compliance Update is FREE for CBI members. To subscribe, email klee@cbiaonline.org. ■

Read latest issue.

Iowa Business Council Releases Fourth Quarter Results

Regulatory Compliance has 'Increased Substantially' for Most

The Economic Outlook Survey is conducted quarterly by the Iowa Business Council to inform Iowa businesses and Iowans about projected trends in the state's economy, which may prove useful for business and economic planning purposes. The 2016Q4 survey was completed by the corporate members of the Council during the second half of November.

The sentiment of Iowa Business Council (IBC) members regarding economic activity in the state for the next six months generally returned to more positive measures from the previous quarter. **2016Q4 IBC Overall Economic Outlook Survey Index (OSI) is 59** – two points ahead of last quarter (57) but one point lower than this time last year (60). *Historic high = 68 from 2012Q2 survey; Historic low = 35.3 from 2009Q1.*

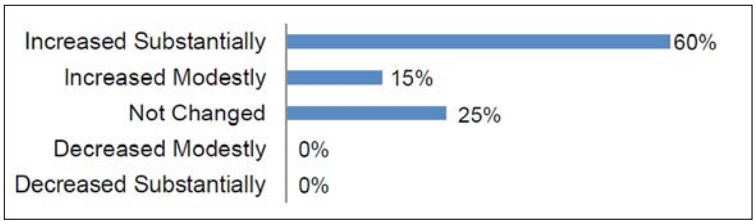
The 2016Q4 Sales OSI is 66, which is seven points higher than last quarter (59) and four points ahead of a year ago (62). Ninety percent of the CEOs expect steady or increased sales over the next six months – substantially higher (10%), higher (50%), or no change (30%). Ten percent of the survey respondents expect sales levels to decrease – lower (10%) or substantially lower (0%). *High = 75 from 2011Q1; low = 38 from 2009Q1.*

The 2016Q4 Capital Spending OSI is 55, which is one point behind last quarter (56) and four points lower than the 2015Q4 survey (59). Eighty percent of IBC corporate members expect steady or increased capital spending levels through May 2017 – substantially higher (0%), higher (40%), or no change (40%). Twenty percent of survey respondents expect capital spending, i.e., investments in facilities and equipment, to decrease – lower (20%) or substantially lower (0%). *High = 71 from 2007Q4; low = 31 from 2009Q1.*

The 2016Q4 Employment OSI is 56, the same result as three months ago (56) and two points behind this time last year (58). Eighty percent expect hiring levels for the next six months to remain steady or grow – substantially higher (0%), higher (40%), or no change (40%). Twenty percent expect employment needs to decrease – lower (20%) or substantially lower (0%). *High = 69 from 2015Q2; low = 37 from 2009Q1.*

Additionally, in this survey each respondent was asked to respond to the following question: "How has your company's total spending on State and Federal Regulatory Compliance changed over the past few years?" The results can be seen in the chart below.

State and Federal Regulatory Compliance



"Iowa's resilient economy is poised to enter the New Year in a promising position," said Mike Wells, President and CEO of Wells Enterprises in Le Mars and 2016 Chair of the Iowa Business Council. "Sales levels often serve as a leading indicator for capital spending and employment activity to come, so business leaders see some hope for the start of 2017."

The quarterly Iowa Business Council Economic Outlook Survey incorporates a diffusion index, wherein each survey response falls on a 100-point scale. Using weighted averages, an index number is then calculated that measures the sentiment of IBC executives projecting business activity six months into the future. An Outlook Survey Index (OSI) of 50 indicates that the business sentiment of all survey participants is average; an OSI above 50, the sentiment is positive; below 50, the sentiment is negative. This index generates a numeric measure going forward that attempts to more precisely estimate the economic condition of business activity in Iowa.

For more info, visit IBC at www.iowabusinesscouncil.org. ■

Table 1: IBC Economic Outlook Survey Index (OSI) (Last five quarters)

	16Q4	16Q3	16Q2	16Q1	15Q4
OVERALL OSI	59	57	62	57	60
Sales OSI	66	59	64	60	62
Capital Spending OSI	55	56	62	57	59
Employment OSI	56	56	60	55	58

Table 2: IBC Economic Outlook 2016Q4 Survey Responses

	Substantially Higher		Higher		No Change		Lower		Substantially Lower	
Quarter	16Q4	16Q3	16Q4	16Q3	16Q4	16Q3	16Q4	16Q3	16Q4	16Q3
Change in SALES over the next six months?	10%	0%	50%	43%	30%	48%	10%	10%	0%	0%
Change in CAPITAL SPENDING over the next six months?	0%	5%	40%	29%	40%	48%	20%	19%	0%	0%
Change in EMPLOYMENT over the next six months?	5%	0%	35%	38%	40%	43%	20%	19%	0%	0%

SHAZAM's focused on strengthening community financial institutions by offering choice and flexibility for all your needs including core services and more. Call us today to learn more about SHAZAM.

Now that's epic.

SHAZAM®

Strengthening Community Financial Institutions

shazam.net/epic | 855.314.1212 | @SHAZAMNetwork

(*Fed Discount Window* continued from page 13)

- **Legal Opinions from Both Foreign and U.S. Outside Counsel** — are required from U.S. branches and agencies of foreign branches.

Collateral

All extensions of credit must be secured to the satisfaction of the lending Reserve Bank by collateral that is acceptable for that purpose. Most performing or investment-grade assets held by depository institutions are acceptable as collateral. Reserve Banks require a perfected security interest in all collateral pledged to secure Discount Window loans.

Reserve Bank staff can offer guidance on other types of collateral that may be acceptable. The following assets are most commonly pledged to secure Discount Window advances:

- Commercial, industrial, or agricultural loans
- Consumer loans
- Residential and commercial real estate loans
- Corporate bonds and money market instruments
- Obligations of U.S. government agencies and government-sponsored enterprises
- Asset-backed securities
- Collateralized mortgage obligations
- U.S. Treasury obligations
- State or political subdivision obligations

Assets accepted as collateral are assigned a lendable value (market value or an internally modeled fair market value estimate multiplied by standard, published margins), with additional adjustments as deemed appropriate by the Reserve Bank. The financial condition of an institution may be considered when assigning values. Collateral margins are applied to the Federal Reserve's fair market value estimate and are designed to account for risk characteristics of the pledged asset as well as the volatility of the value of the pledged asset over an estimated liquidation period.

Collateral margins for loans are as follows:

- The Federal Reserve uses reported cash flow characteristics and proxy credit spreads to calculate a fair market value estimate for each pledged loan. When individual loan cash flow characteristics are not available, the Federal Reserve uses general assumptions to estimate the fair market value of the loan pool.
- Margins for loan collateral are likewise based on reported cash flow characteristics. Margins are established based on the historical volatility of risk-free rates and proxy credit spreads, measured over typical liquidation periods.

Collateral margins for securities are as follows:

- Securities are typically valued daily using prices supplied by external vendors. Eligible securities for which a price cannot readily be obtained will be assigned an internally modeled fair market value estimate based on comparable securities, and they will receive the lowest margin for that asset type.
- Margins for securities are assigned based on asset type and duration. Margins are established based on the historical price volatility of each category, measured over typical liquidation periods.

Arrangements for pledging collateral should be reviewed with the Reserve Bank. Securities issued by the U.S. government and most securities issued by U.S. government agencies are held in an automated book-entry records system at the Federal Reserve. Other securities pledged as collateral generally are held by a depository or other agent through a custodian arrangement. Loans (customer notes) pledged as collateral typically are held by a custodian or under a borrower-in-custody arrangement. Physical securities, promissory notes, and other definitive assets may, however, be held on the Reserve Bank's premises.

Disclosure

In accordance with the provisions of the Dodd–Frank Wall Street Reform and Consumer Protection Act,[6] the Federal Reserve changed its practices with respect to disclosure of Discount Window lending information. Effective for Discount Window loans (primary, secondary, and seasonal credit) extended on or after July 21, 2010, the Federal Reserve will publicly disclose the following information, generally about two years after a Discount Window loan is extended to a depository institution:

- The name and identifying details of the depository institution
- The amount borrowed by the depository institution
- The interest rate paid by the depository institution
- Information identifying the types and amounts of collateral pledged in connection with any Discount Window loan. This disclosure requirement does not apply to collateral pledged by depository institutions that do not borrow.

This information will be released quarterly and may be disclosed with less than a two-year lag if the Chair of the Federal Reserve determines that it is in the public's interest and that the disclosure would not harm the purpose or conduct of the Discount Window.

Conclusion

Since the Federal Reserve System was established in 1913, Discount Window policies and programs have evolved in response to the changing needs of the economy and financial system. The primary credit program serves as a safety valve for ensuring adequate liquidity in the banking system and a backup source of short-term funds for generally sound depository institutions. Most depository institutions qualify for primary credit. Minimal administration of and minimal restrictions on the use of funds make it a reliable short-term backup funding source.

Being prepared to borrow primary credit — similar to access to any backup liquidity facility — enhances a depository institution's liquidity and eliminates the need to bid for marketplace funds when available funds are tight. Even if a depository institution does not envision using the Discount Window in the ordinary course of events, it is encouraged to execute the required documentation for contingency purposes because the need for Discount Window credit could arise suddenly and unexpectedly.

Depository institutions that may be eligible for the seasonal credit program are encouraged to contact their Reserve Bank to determine eligibility. Institutions that experience fluctuations in deposits and loans frequently qualify for the seasonal lending program. This program provides funding of these seasonal needs so that the institution can carry fewer liquid assets during the rest of the year and make more funds available for local lending.

Depository institutions are encouraged to contact their Reserve Bank to discuss collateral requirements and arrangements before a need to borrow arises.[7] ■

Notes

1 Much of the statutory framework that governs Discount Window lending is contained in section 10B of the Federal Reserve Act, as amended, available here. The programs and policies that implement the statutory framework are set forth in the Federal Reserve's Regulation A, available here.

2 Detailed information on the Discount Window is available here.

3 Find more information about Regulation D here.

4 CAMELS stands for capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk; SOSA stands for strength of support assessment; and ROCA stands for risk management, operational controls, compliance, and asset quality.

5 Find more information about the act here.

6 The text of the Dodd–Frank Wall Street Reform and Consumer Protection Act is available here.

7 Discount Window contacts are available here.

Community Bank
Balance Sheet Support & Solutions

Industry Leader | Trusted Advisor | Results Driven

"Vining Sparks is not just a vendor or some firm trying to sell us something…"

"they are our most important partner & trusted advisor"

Jonathan Ferebee
800-786-1276
Jferebee@viningsparks.com

Gray Allison
800-786-2862
gallison@viningsparks.com

Steve Lamb
800-957-0452
slamb@viningsparks.com

Jonathan Pence
800-786-0059
jpence@viningsparks.com

Wade Oliver
800-786-0887
wade.oliver@viningsparks.com