CBI Community Bankers of Iowa

COMMUNITY BANKER UPDATE

FALL 2023

52nd Annual Convention Recap

Features:

TIME OUT FOR TRIVIA:
Q&AS TO ENLIGHTEN PORTFOLIO MANAGEMENT

6 Ways You Can Use Call Report Peer Analysis Effectively

Credit and Institutional Depositors

Commercial Real Estate:
Key Trends and Risk Management in a New Era

New Program Educates You and Your Staff While Supporting CBI

CBI has launched new, expanded educational offerings in collaboration with Independent Community Bankers of America (ICBA) Education. This program provides a variety of ways to educate: certification programs, a bank director program, self-guided online training, and a wealth of resources and reference guides.

And, you can show your support for CBI at no cost to you! For every ICBA Education training course, seminar and resource purchased, **ICBA will donate 10 percent of eligible purchases to CBI**. When purchasing a course, program or resource materials, enter the state code **IA-CBI** during the checkout process.

This new affiliate education program will ensure that collectively, we put community banks in contact with the training tools necessary to grow bankers' knowledge and skills. Learn more and view program offerings on our website. Click the Education button at the top of any CBI website page. ■

CBI WEBINARS

CBI Webinars are a standalone program independent of ICBA Education.

See course listings on our website; click the Education button and look for "Webinars".

In This Issue

SUBSCRIBE TO COMMUNITY BANKER UPDATE
Email klee@cbiaonline.org

Community Bankers of Iowa
521 E. Locust St, Suite 202
Des Moines, Iowa 50309
Phone: 515-453-1495 | Fax: 515-453-1498
cbia@cbiaonline.org | www.cbiaonline.org

Stay Connected! CommunityBankersOfIowa @CBIAOnline

COME TOGETHER!

RECAP: CBI's 52nd Annual Convention

CBI's 52nd Annual Convention was the ultimate family reunion. It brought Iowa's community bankers together to learn both from each other and from industry experts. This year we moved the entire event down to Arnolds Park for a lakeside family reunion. Day 2 activities included a Family Picnic lunch on the Queen II lake excursion cruiser

During the First Geneal Session economist **Ernie Goss** discussed the latest trends in the overall economy, both national and global--with a few Dad jokes thrown in. ICBA Immediate Past President **Bob Fisher** led us down his road to becoming a community banker, highlighted ICBA's top community bankers in Iowa, and noted that Iowa featured four selectees in ICBA's annual 40 Under 40 Awards--the most of any other state in 2023.

Sukup Manufacturing President & CEO **Steve Sukup** was a big hit as the Iowa Showcase speaker during the Town Hall Breakfast, with an impressive speech on the history of Sukup Manufacturing, its growth and innovations in technology and their human resource programs. 3x Dallas Cowboy Super Bowl Champion, US Air Force Fighter Pilot & Author **Chad Hennings** delivered an inspiring Keynote speech on maintaining excellence in every aspect of our lives. He also stuck around to hand out awards to the 2023 Leaders of Tomorrow Scholarship Winners Abbey Bence and Dante Johnson--and plenty of selfies with Convention attendees. **Teresa Greenfield**, Iowa Director of USDA Rural Development closed the conference outlining the office's many programs for farmers, livestock producers, energy development and manufacturing.

During the educational sessions we heard a panel discussion on Fraud Prevention featuring **Mike Burke**, Senior Robbery and Crisis Management Consultant from SHAZAM, **John Lande**, Attorney at Dickinson Law, and **Scott Saunders**, bank analyst with the Iowa Division of Banking (IDOB). Cybersecurity, new technologies and upcoming concerns in digital fraud were discussed at length. The ***Regulators' Panel*** comprised of IDOB Superintendent **Jeff Plagge**, FDIC's **James LaPierre**, and **Julie Williams** with the Federal Reserve Bank of Chicago brought us up to speed on the latest data and panelists' opinions on the potential impact of current and future proposed legislations.

CBI's 52nd Annual Convention has come and gone, but we're already gearing up for the 53rd. **Next year's Annual Convention will be held July 17-19 in Arnolds Park, Okoboji, Iowa.** Mark your calendars now!

Thank you to all Convention attendees, and a BIG thank you to our Convention Sponsors--we couldn't do it without you! ■

Above: Fraud and Cybersecurity Prevention panelists (L-R) **Scott Saunders**, **John Lande** and **Mike Burke** discussing the latest issues and defenses in bank operational security.

Above: State and Federal Regulator panelists (L-R) **Julie Williams**, **Jim LaPierre** and **Jeff Plagge** presenting banking conditions in Iowa and proposed legislations impacting the financial industry.

Left: ICBA Past Chairman **Bob Fisher** recounting his story in becoming a community banker.

Left: Economist **Ernie Goss** provided convention-goers a look at the current state and future trends of the US economy.

Above: 2022-23 CBI President **Mary Howell** opening the 52nd Annual Convention at the Kickoff Reception.

Above: President **Steve Sukup** highlighting Sukup Manufacturing's origins, facilities and innovations in ag technologies.

Below: 2023-24 CBI Board President **Tim Wolf** opening the Second General Session.

Above: Convention Keynote Speaker **Chad Hennings** narrating on his professional career, current involvement in community programs, the importance of excellence in character and behavior and a winning attitude.

Above: Convention attendees at the Trade Expo & Reception.

CBI AFFILIATE MEMBERS AT THE TRADE EXPO

Above: [L-R] **Kris Ausborn** (Iowa Trust & Savings Bank, Emmetsburg), **Stacey Snyder** and **Doug Pfeifer** (Midwest Independent BankersBank), **Tom Bates** (County Bank, Sigourney).

Below: Cambridge Investment's **Barry Schmidt** and **Lindy Johnson.**

Below: BCC Advisers' **Jack Arndt** and **Lindy Ireland**.

Right: Check presentation honoring ICBA's annual contribution to CBI programs and events. (L-R) Community Bankers of Iowa CEO **Dave Caris**, **Sean Murphy**, ICBA's Midwest VP of Member Relations, 2022-23 CBI Board President **Mary Howell** and ICBA Past Chairman **Bob Fisher**.

Making a Difference in Northwestern Iowa

Community Bank of Oelwein Is the 2023 "Best-of-the-Best" Competition Winner

Community Bank of Oelwein Vice President Sarah Lewis and President Jim Kullmer accepting the 2023 Best-of-the-Best Competition award at the 52nd Annual Convention.

Independent community banks across Iowa have an important role and impact in their local communities. April is Community Banking Month in Iowa, a time to honor those who are Making a Difference on Main Street. CBI's Best-of-the-Best Award distinguishes a community bank in Iowa that epitomizes personal service and support of their community. Community Bank of Oelwein in Oelwein, Iowa was recognized as the 2023 recipient during the Kick-Off Reception of CBI's 52nd Annual Convention in Okoboji.

This year the spotlight shined brightly on a team that takes community service to the next level. The work the bank has done over the past year sends a clear message about how community banks are making a difference on Main Street. The bank held various activities such as bake sales, parent/child golf outings, educational trips to the bank for grade school children, an agricultural seminar, and many more. The bank also donated or fundraised for over 25 different charities and civic groups, like those supporting hospitals, cancer research, area schools, the arts and other local businesses.

Among the bank's most impressive projects has been building a brand-new event center, an effort to inject new life into the economic growth of the community and surrounding region. Plans for the new event center include taking over a 30,000-square-foot space recently vacated by a relocated business. In addition to providing project leadership, the bank donated $250,000 toward project costs as a matching donation to encourage fundraising efforts. The $3.5 million project is slated to be completed in late 2023. The project has been led and managed by the bank's VP Sarah Lewis and President Jim Kullmer.

As the 2023 Best-of-the-Best Award winner, Community Bank of Oelwein will also receive a lunch party for their entire staff, compliments of CBI.

Congratulations to the entire community Bank of Oelwein team for your stellar example of what it means to make a difference on Main Street, and the lasting effects that so often only community banks can bring. ■

Below: Attending the awards ceremony at the Annual Convention's Kickoff Reception.

Mike Zmolek Selected as 2023's Up & Coming Banker of the Year

2023's Up & Coming Banker of the Year Mike Zmolek receiving his award from LOT Chair Jon Hummel, Vice President at West Bank in West Des Moines.

Every year a community banker is recognized for their performance and achievements in banking and is named the Leaders of Tomorrow Up & Coming Community Banker of the Year.

Mike Zmolek, Assistant Vice President and Loan Officer at State Bank of Toledo was announced as the 2023 recipient at CBI's 52nd Annual Convention Kick-Off Reception.

An active member of CBI's Leaders of Tomorrow (LOT) program, Mike joined his bank in 2020 and had no prior banking experience. He and his wife grew up in the Toledo area and chose to raise their family there. After graduating from the University of Northern Iowa he transitioned into crop insurance. Prior to joining the bank he was being groomed to co-manage a local family-owned farm supply store primarily selling livestock feed and crop seeds. Through his insurance activities and working in the local farm supply store, Mike developed many relationships with area farmers. Bank president John Kavalier said,

2023 Up & Coming Banker Mike Zmolek, Assistant VP and Loan Officer at State Bank of Toledo in Toledo, Iowa.

"With Mike's experience in the agricultural sector, I was confident we could provide him with the training to become an agricultural loan officer. His strong ties to our community made it likely that he would stay with us for the long-term. Mike has proven himself to be the excellent agricultural loan officer that I thought he would be. In his short tenure, he is now successfully managing our agricultural loan portfolio."

Congratulations Mike! ■

2022-23 CBI Board President Mary Howell and Rob J. Dixon (left), son of the Robert D. Dixon Founders' Award's namesake, on stage with 2023 recipient Gene Neighbor.

CBI Names Gene Neighbor the 2023 Robert D. Dixon Founders' Award Recipient

Iowa's community bankers were recognized at an awards ceremony held during the Kick-Off Reception of the 52nd Annual Convention.

The Robert D. Dixon Founders' Award, established in 2003, is the most anticipated and highly regarded honor of the ceremony. The award was created to recognize those bankers who embody commitment and represent the best in community banking.

The 2023 award recipient Gene Neighbor has been a lifelong banker at Farmers State Bank in Marion, a family-owned bank, and exemplifies a commitment to his employees, the customer, and community. His commitment and dedication to his community and the bank he leads will serve lasting benefits for years to come.

Gene is considered by many to be a good leader, displaying compassion and common sense throughout his community banking career. He also takes an active role in industry trade groups and encourages bank employees to do the same. He also encourages employees to give back to their local community through numerous volunteer activities throughout the year, and often hosts family-friendly events for the community. In addition, through his leadership Farmers State Bank gives back through numerous charitable donations to deserving groups.

2023 Robert D. Dixon Founders' Award recipient Gene Neighbor, President of Farmers State Bank in Marion.

Upon being named this year's awardee Gene rose to the podium amid loud cheering and applause, indicating the level of respect he's built among his peers in the community banking industry.

Congratulations Gene! ■

18TH ANNUAL FISHING TOURNAMENT WINNERS

Sheephead
Stacy Snyder—21.25"
Guide: John Campbell

Walleye - **Doug Pfeifer—18"**
Guide: Shannon Green

Bluegill - **Bob Fisher—9.5"**
Guide: Ryan Hale

Muskie - **Chad Hudson—39"**
Guide: Shane Akin

Largemouth Bass
Cooper Lane—21.75"
Guide: Shane Akin

Leaders of Tomorrow Group Honors Two Iowa Students

Providing Scholarships to High School Seniors for 22 Years!

Each year CBI's Leaders of Tomorrow (LOT) group supports and encourages the next generation by providing two scholarships to deserving high school seniors. Iowa students **Abbey Bence** and **Dante Johnson** were this year's awardees, honored during CBI's awards ceremony held during the Kickoff Reception at its 52nd Annual Convention in Arnolds Park on Lake Okoboji.

The definition of the well-rounded student-athlete, **Abbey Bence** was a straight-A student, leader on the volleyball and basketball courts; and served three years as Student Council president and two years as Chief Editor of her high school Yearbook. An exemplary National Honor Society student, Abbey has been recognized for her innate ability to lead and inspire in the classroom and any challenge she encounters. She has even spoken to the Iowa State Legislature on the importance of preparing Iowa's students with the skills needed to succeed in today's workforce.

A former instructor at West Burlington High School said of Abbey in their recommendation letter that volunteers willing to encourage life skills are a rare commodity, and she proved to be a compassionate role model. Abbey also demonstrated that commitment to her local community by helping to build out the West Burlington girls' volleyball and basketball programs, mentoring girls in 3rd through 5th grades with the belief that supporting those girls was just as important as coaching them.

In her essay, Abbey noted that in her hometown it is difficult to find a community event, sports team, or club that is not sponsored by a community bank, and she has witnessed firsthand the amount of support community banks give to local organizations. She went on to say that:

> *"...many community activities would not be possible without the sacrifice hometown banks and their employees make. [They] drive local projects... and are heavily involved in promoting the growth of small businesses throughout the community. Bank leaders are extremely involved in our area Chamber of Commerce as well. I watched as they requested funding for local projects and fought for the rights of local businesses. I even spoke on behalf of my class in front of the state legislators to voice my concerns for education in my community. I was supported every step of the way by the community bank employees."*

In a special ceremony at the 52nd Annual Convention, 3-time Dallas Cowboy Champion Chad Hennings and West Bank VP and LOT Co-Chair Jon Hummel presented 2023 Leaders of Tomorrow Scholarships to Abbey Bence and Dante Johnson.

Abbey was nominated for the 2023 LOT Scholarship by her mother Lisa Bence, Vice President of Operations at Two Rivers Bank & Trust in Burlington, IA. Abbey began classes at Central College in Pella this Fall.

Another straight-A student athlete and community leader, **Dante Johnson** has also been very active in his local and national Future Farmers of America (FFA) organizations. His FFA advisor referred to him as the epitome of a model student, and someone who

Continued On Next Page

Continued From Previous Page

has taken to heart the FFA's mission statement of developing premier leadership, personal growth and career success. His work ethic, ability to think on his feet and problem solve is impressive and made him a favorite at South O'Brien Community High School.

In a letter recommending Dante for the Scholarship, his business education teacher Aaron Guise noted that Dante was considered to be a proven leader; someone who his peers often looked to for guidance, both in the classroom and on the athletic field. Guise added that the integrity and sportsmanship Dante displayed was second to none and reflects his true character.

In his essay, Dante relayed that his hometown bank in Sutherland donated funds for new equipment for the football team, highlighting that it wasn't just about the gear; it was about the message it conveyed--that [the students'] dreams mattered and that the bank was invested in their success. He also recounted:

> *"[the bank's] willingness to provide loans to first-time homeowners, who may have struggled to secure financing from other banks, has made a significant impact on attracting new families to Sutherland. This influx of new residents not only brings economic growth but also bolsters our schools and community involvement. It's heartening to witness a bank that genuinely cares about our success, rather than just being interested in financial transactions."*

Dante was nominated for the 2023 LOT Scholarship by his father Darin Johnson, President & CEO of Security State Bank in Sutherland, IA. Dante began his studies at Iowa State University this Fall, majoring in Finance. We may see another community banker in the future!

CBI would like to congratulate Abbey and Dante for their outstanding academic work, selfless volunteerism and commitment to the betterment of their communities. We wish success and good luck to you in your assuredly bright futures ahead!

Time Out for Trivia

Q's and A's to enlighten portfolio management.

Written By: Jim Reber
President and CEO
ICBA Securities

If you're a sports fan (and I know you are), and you're also of a vintage that has recall back several decades, you may have heard of Todd Donaho. Donaho was the self-proclaimed "commissioner of sports trivia" as the host of Time Out For Trivia (TOFT), a popular live call-in show that ran on the USA Network on weekday evenings from 1985 to 1990. The commish would fire off questions in rapid-fire succession to phone-in contestants, who hoped to win prizes ranging from telephones to grills. Players would compete at their own peril, as Donaho would often ask "boneheads" who guessed incorrectly to "take a hike." Nonetheless it was a winning formula, and by cable TV standards TOFT had high ratings.

What does this have to do with community banking? Hang with me as I pose a series of my own questions relating to community banks, which I hope you will view as more helpful than trivial. Even better: Your author supplies the answers, so there's no risk of nationally-broadcast humiliation. As Donaho himself would exhort, "Who's playing Time Out For Trivia?"

Question: If you buy a callable bond, are you long or short a call option?

Answer: You are short. Mechanically, you have simultaneously bought a bond and sold an option. The issuer has done the opposite and owns the right to take the bond away from you at designated dates in the future. Most callables have periodic call features (e.g., quarterly) but some are callable one time only. The aggregate value of the series of options translates into the additional yield over and above a non-callable "bullet."

Question: Why is Average Life always longer than Effective Duration for a given bond?

Answer: Average Life is the weighted average period of time to receive your principal, whereas Effective Duration is the weighted average period of time to receive principal and interest. Average Life is more relevant for amortizing securities such as mortgage-backed securities (MBS). Since interest is received periodically (as well as early and late) in the life of a bond, the weighted average time period is less than for principal alone. Average Life is more useful for calculating portfolio cash flows and liquidity; Effective Duration is a standard for measuring price volatility.

Question: If you sell the guaranteed portion of an SBA 7(a) loan, what are the total proceeds?

Answer: There are two sources, and a third element that bears mentioning. First, the proceeds include the principal plus the premium paid by the buyer. If the guaranteed portion is $250,000 and the bid is 108.00 (which isn't unusual), the total is $270,000 of which $20,000 is gain, and booked on sale date (not settlement date). Additionally, SBA mandates that the seller retains 1% of the interest flow from future payments as servicing income. Finally, the entire amount of the unguaranteed portion, principal and interest, is retained by the original lender.

Question: Why does the inflation gauge consumer price index (CPI) usually come in higher than the Fed's preferred measuring stick personal consumption expenditures (PCE)?

Answer: It's a two-pronged answer. First, the basket of

Time Out for Trivia: Continued on Page 14

6 ways you can use Call Report Peer Analysis effectively

Written By:
Robert H. Zondag, Principal - WIPFLI

For many in financial institutions, call report peer analysis is a familiar tool that often goes overlooked. But for new leaders in the industry, it's one that could be crucial in understanding their financial institution's performance.

Analyzing your financial performance compared to peers helps you discover weaknesses and identify the opportunities and threats you face from a rapidly changing financial services marketplace — all of which is critical to formulating your institution's strategy. A competitive analysis can help you learn the ins and outs of how your peers work and identify potential opportunities where you can out-perform the market. It also enables you to identify internal as well as external trends and ensure your institution is consistently meeting — and exceeding — peer standards.

Here are six ways you can start using call report peer analysis more effectively:

1. Identify the right metrics to evaluate
For many institutions, call report analysis focuses on traditional measures, such as return on equity, return on assets or efficiency ratio. However, to leverage the analysis more effectively, review the data that drives those topline measures.

Evaluate how you compare to peers in occupancy expense, funding mix or overhead expense growth rate. By reviewing the causal ratios, you can discover where your institution is doing well, where you need to improve and which trends you need to get ahead of.

2. Seek appropriate peers
For many call report peer analyses, a traditional local peer group or regulatory peer group is used. To better leverage the data, seek a more appropriate peer group.

Look for one that better mirrors your balance sheet, type of lending conducted, ownership structure and revenue sources (non-interest income). By choosing a more focused peer group, these institutions will provide a better picture of how you compare based on the same available resources such as capital and people.

3. Determine which data points are worth investigating
Oftentimes, call report analysis is reviewed and no actionable results are developed.

In looking at your peer analysis, consider what data points you could be leveraging to improve performance. These aspects could be items such as loan or deposit pricing. You could also look at off-balance sheet services such as trust or insurance, delivery strategies or product mix.

4. Document your research
After completing your investigation, make sure your further research is documented so that you can use it to develop action items from the analysis.

For the greater team, comparison charts and graphs are useful to help visualize your position in relation to your peer group.

5. Execute the changes
Once you have your action items, identify which departments or teams in your institution will be responsible for them. Accountability eliminates the time and effort you spend on distracting activities and other unproductive initiatives.

When you make people accountable for their actions, you're effectively teaching them to value the analysis, time and research completed. And when done right, accountability can increase your team members' skills and confidence to move performance.

It's also important to ask your team to articulate what is needed to support better performance.

Should your institution improve the type or pricing of your deposit accounts, or is your clients' digital experience your main challenge? Could you achieve a better ROI on your marketing budget by investing in a more capable CRM for better lead management?

6 ways you can use call report analysis: continued on Page 17

Time Out for Trivia: Continued from Page 12

goods for both indices (which is very deep—more than 80,000 items) changes over time as new products enter the market, some disappear, and others' popularity rise and fall. PCE is quicker to adjust the basket to reflect what you and I actually consume. Which brings us to the second prong: Informed consumers will prefer cheaper goods to more expensive ones, given suitable substitutes. Since PCE mirrors more quickly what our new basket of goods actually holds, it tends to be several tenths of a percent lower than CPI.

Question:* *Why do straight pass-through MBS use the prepayment model conditional prepayment rate (CPR), while their first cousin, collateralized mortgage obligations (CMO) use the model known the Public Securities Administration (PSA), when estimating how a given security will perform?

Answer: At one point in the distant past, examiners decided that PSA was more accurate in predicting how a cohort of mortgages would prepay, so that became the standard. PSA is in fact derived from CPR and is an attempt at refining prepayment estimates based on the age of mortgages in a pool. These standards (set in the 1980s at the dawning of the mortgage derivative market, and in TOFT's heyday) have been relaxed, even though CPR/PSA information is still calculated and available for all manner of mortgage securities. Best practices can still call for documenting and modeling how a pool would perform using both methodologies.

So there you have our trip down cable TV lane, compliments of the venerable USA Network. As the commissioner of sports trivia himself would sign off, "Feeling tremendous, I might add." And if you're so inclined, you can view some classic episodes of TOFT on YouTube. ■

Jim Reber is president and CEO of CBI Endorsed Member ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks. He can be reached at 800-422-6442 or jreber@icbasecurities.com.

DICKINSONLAW

Propelling Your Bank Ahead

At Dickinson Law, we're dedicated to helping you Keep Calm and Bank On® by propelling your bank ahead with our dependable legal advice. Our team of experienced attorneys understands the intricacies of the banking industry and is committed to providing you with innovative and effective legal solutions.

With one of the largest legal teams focused on banking in Iowa, Dickinson Law has been providing knowledgeable solutions to Community Bankers for more than 85 years. In good times and in bad, it's our commitment to help you manage risks, take advantage of opportunities, and keep your bank moving in the right direction. With our focus on integrity, agility, and responsiveness, our goal is to help you grow and thrive, even in challenging times.

From regulatory compliance to risk management and litigation in an increasingly competitive environment, our approach is results-oriented, designed to help you achieve your goals and move your bank forward. Don't let the challenges of the current climate hold you back. Contact us today to learn more about how we can help you propel your bank ahead.

515.244.2600

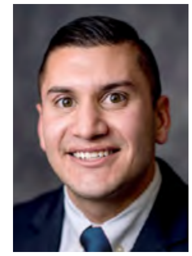
dickinsonlaw.com

Credit and Institutional Depositors

Written By:
◄ James Lutter, Chief Funding and Trading Officer

Todd Terrazas, VP, Institutional Investment Sales Manager ►

PMA Funding



Credit plays a significant role in wholesale and institutional depositors' decisions when choosing financial institutions to work with. These depositors, often managing substantial funds, and are particularly concerned with the safety and creditworthiness of the financial institutions they engage with. Here's how credit influences their decision-making process:

1. CREDIT RATINGS AND ASSESSMENTS:
Wholesale and institutional depositors closely examine the credit ratings and assessments assigned to financial institutions by reputable rating agencies such as Moody's, Standard & Poor's and Fitch Ratings. These ratings provide an independent evaluation of a financial institution's financial strength, stability and ability to meet its obligations. Higher credit ratings indicate lower credit risk and can attract more wholesale deposits. Conversely, lower ratings may deter institutional depositors due to concerns about a financial institution's financial health.

2. COUNTERPARTY RISK MITIGATION:
Institutional depositors are often concerned about counterparty risk, which refers to the risk of default or non-payment by the financial institution. They may prioritize placing deposits with financial institutions that have strong credit profiles, as this mitigates the potential for counterparty risk. Robust creditworthiness reduces the likelihood of loss in case of a financial institution's financial distress or failure, providing reassurance to wholesale depositors.

3. CREDIT SPREAD AND YIELD:
The credit spread, or the difference between the interest rate on risk-free investments (such as government bonds) and the rate offered by a financial institution, is an important factor for wholesale and institutional depositors. These depositors assess whether the additional yield offered by a financial institution compensates for the credit risk they are taking. Financial institutions with higher credit ratings often command lower credit spreads, as their perceived credit risk is lower. Wholesale depositors are more likely to deposit with financial institutions offering competitive yields while maintaining a favorable credit risk profile.

4. RISK MANAGEMENT AND CAPITAL ADEQUACY:
Institutional depositors analyze a financial institution's risk management practices and capital adequacy to assess its ability to withstand financial shocks and protect depositor funds. Robust risk management frameworks, prudent lending practices and adequate capital buffers are indicators of a financial institution's creditworthiness. Financial institutions with a strong track record in managing credit risk and maintaining adequate capital levels are more likely to attract wholesale and institutional deposits.

5. REGULATORY COMPLIANCE:
Institutional depositors, especially those subject to regulatory oversight, consider a financial institution's compliance with regulatory requirements. Adherence to regulations ensures that a financial institution operates within prescribed guidelines and reduces the likelihood of financial misconduct or non-compliance issues. Financial institutions with a strong compliance culture and a track record of regulatory compliance are more attractive to wholesale depositors seeking to mitigate operational and reputational risks.

6. TRANSPARENCY AND DISCLOSURES:
Open and transparent communication is essential for financial institutions to gain the trust of wholesale and institutional depositors. Providing comprehensive and accurate information about a financial institution's financial performance, risk exposure and credit quality helps build confidence in its operations. Clear disclosures about loan portfolios, asset quality and risk management practices enable depositors to assess

Credit and Institutional Depositors: continued on Next Page

Credit and Institutional Depositors: continued from Previous Page

a financial institution's creditworthiness and make informed decisions about deposit placements.

In summary, creditworthiness, as reflected in credit ratings, risk management practices, capital adequacy, regulatory compliance, and transparency, plays a crucial role in wholesale and institutional depositor's decision-making process. These depositors prioritize the safety of their funds and seek to mitigate credit and counterparty risks when selecting financial institutions to deposit with. ■

D. James (Jim) Lutter is the Chief Funding and Trading Officer for PMA Funding, a service that provides over 1,000 financial institutions with a broad array of cost-effective funding alternatives. Jim is responsible for bank funding, trading and operations. Todd Terrazas currently serves as Vice President, Institutional Investment Sales Manager. He is responsible for developing bank partner relationships and managing funding product solutions and association affiliations. Todd also engages in strategic planning and identifying market trends through extensive market research. For more information on CBI Affiliate Member PMA Funding, visit www.pmafunding.com.

6 ways you can use call report analysis: Continued from Page 13

Asking these types of questions to your teams will help you better identify productive solutions.

6. Track your results
Continuous improvement is just that: continuous.

For financial institutions, performance is easily measured quarterly by repeating the peer analysis. Evaluate whether your performance improved compared to peers and determine why or why not. Then continue the iterative process. ■

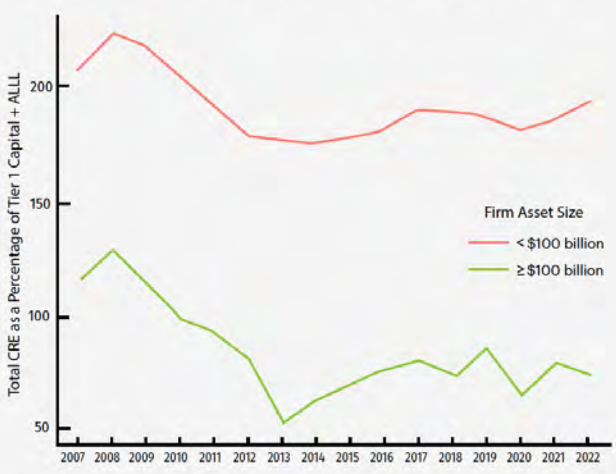
Robert H. Zondag brings leadership experience as an entrepreneur and executive in financial services. He is passionate about bringing clarity to his clients when they face complex business issues and regulatory matters. For more information on CBI Affiliate Member Wipfli, visit www.wipfli.com.

Commercial Real Estate: Key Trends and Risk Management in a New Era

By: Jessica Olayvar, Senior Manager, & Mina Oldham, Senior Supervision Analyst-Risk & Surveillance Team
*Division of Supervision, Regulation, & Credit - Federal Reserve Bank of Richmond**

While the banking industry is widely viewed as more resilient today than it was heading into the financial crisis of 2007–2009,[1] the commercial real estate (CRE) landscape has changed significantly since the onset of the COVID-19 pandemic. This new landscape, one characterized by a higher interest rate environment and hybrid work, will influence CRE market conditions. Given that community and regional banks tend to have higher CRE concentrations than large firms (Figure 1), smaller banks should stay abreast of current trends, emerging risk factors, and opportunities to modernize CRE concentration risk management.[2,3]

Figure 1: Median CRE Concentrations by Firm Size



Source: Call Report, Q4 2022 data, using the median for each bank group

ALLL = allowance for loan and lease losses

Several recent industry forums conducted by the Federal Reserve System and individual Reserve Banks have touched on various aspects of CRE. This article aims to aggregate key takeaways from these various forums, as well as from our recent supervisory experiences, and to share noteworthy trends in the CRE market and relevant risk factors. Further, this article addresses the importance of proactively managing concentration risk in a highly dynamic credit environment and provides several best practices that illustrate how risk managers can think about Supervision and Regulation (SR) letter 07-1, "Interagency Guidance on Concentrations in Commercial Real Estate,"[4] in today's landscape.

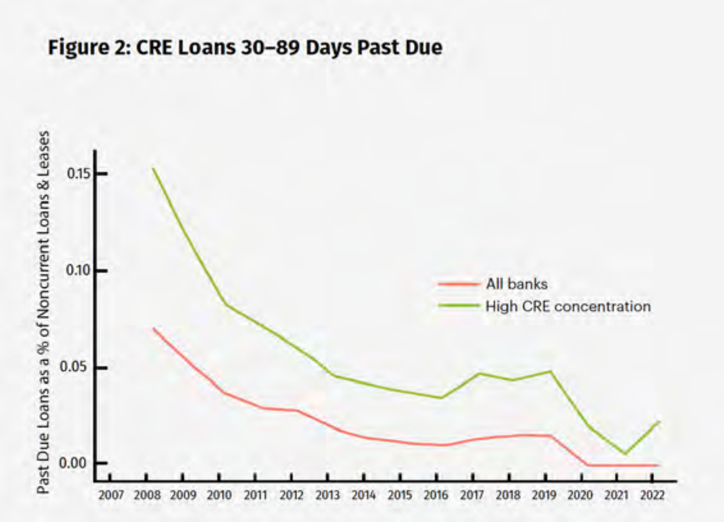
Market Conditions and Trends

Context

Let's put all of this into perspective. As of December 31, 2022, 31 percent of the insured depository institutions reported a concentration in CRE loans.[5] Most of these financial institutions were community and regional banks, making them a critical funding source for CRE credit.[6] This figure is lower than it was during the financial crisis of 2007–2009, but it has been increasing over the past year (the November 2022 Supervision and Regulation Report stated that it was 28 percent on June 30, 2022). Throughout 2022, CRE performance metrics held up well, and lending activity remained robust. However, there were signs of credit deterioration, as CRE loans 30–89 days past due increased year over year for CRE-concentrated banks (Figure 2). That said, past due metrics are lagging indicators of a borrower's financial hardship. Therefore, it is critical for banks to implement and maintain proactive risk management practices — discussed in more detail later in this article — that can alert bank management to deteriorating performance.

Commercial Real Estate: Key Trends and Risk: continued on Next Page

Commercial Real Estate: Key Trends and Risk continued from Previous Page



Source: Call Report, Q4 2022 data, using the median for each bank group

Noteworthy Trends

Most of the buzz in the CRE space coming out of the pandemic has been around the office sector, and for good reason. A recent study from business professors at Columbia University and New York University found that the value of U.S. office buildings could plunge 39 percent, or $454 billion, in the coming years.[7] This may be caused by recent trends, such as tenants not renewing their leases as workers go fully remote or tenants renewing their leases for less space. In some extreme examples, companies are giving up space that they leased only months earlier — a clear sign of how quickly the market can turn in some places. The struggle to fill empty office space is a national trend. The national vacancy rate is at a record 19.1 percent — Chicago, Houston, and San Francisco are all above 20 percent — and the amount of office space leased in the United States in the third quarter of 2022 was nearly a third below the quarterly average for 2018 and 2019.

Despite record vacancies, banks have benefited thus far from office loans supported by lengthy leases that insulate them from sudden deterioration in their portfolios. Recently, some large banks have begun to sell their office loans to limit their exposure.[8] The sizable amount of office debt maturing in the next one to three years could create maturity and refinance risks for banks, depending on the financial stability and health of their borrowers.[9]

In addition to recent actions taken by large firms, trends in the CRE bond market are another important indicator of market sentiment related to CRE and, specifically, to the office sector. For instance, the stock prices of large publicly traded landlords and developers are close to or below their pandemic lows, underperforming the broader stock market by a huge margin. Some bonds backed by office loans are also showing signs of stress. The Wall Street Journal published an article highlighting this trend and the pressure on real estate values, noting that this activity in the CRE bond market is the latest sign that the increasing interest rates are impacting the commercial property sector.[10] Real estate funds typically base their valuations on appraisals, which can be slow to reflect evolving market conditions. This has kept fund valuations high, even as the real estate market has deteriorated, underscoring the challenges that many community banks face in determining the current market value of CRE properties.

In addition, the CRE outlook is being affected by greater reliance on remote work, which is subsequently impacting the use case for large office buildings. Many commercial office developers are viewing the shifts in how and where people work — and the accompanying trends in the office sector — as opportunities to consider alternate uses for office properties. Therefore, banks should consider the potential implications of this remote work trend on the demand for office space and, in turn, the asset quality of their office loans.

Key Risk Factors to Watch

A confluence of factors has led to several key risks impacting the CRE sector that are worth highlighting.

- **Maturity/refinance risk:** Many fixed-rate office loans will be maturing in the next couple of years. Borrowers that were locked into low interest rates may face payment challenges when their loans reprice at much higher rates — in some cases, double the original rate. Also, future refinance activity may require an additional equity contribution, potentially creating more financial strain for borrowers. Some banks have begun offering bridge financing to tide over certain borrowers until rates reverse course.
- **Increasing risk to net operating income (NOI):** Market participants are citing increasing costs for items such as utilities, property taxes, maintenance, insurance, and labor as a concern because of heightened inflation levels. Inflation could cause a building's operating costs to rise faster than rental income, putting pressure on NOI.

Commercial Real Estate: Key Trends and Risk: continued on Next Page

Commercial Real Estate: Key Trends and Risk continued from Previous Page

- **Declining asset value:** CRE properties have recently experienced significant price changes relative to pre-pandemic times. An Ask the Fed session on CRE noted that valuations (industrial/office) are down from peak pricing by as much as 30 percent in some sectors.[11] This causes a concern for the loan-to-value (LTV) ratio at origination and can easily put banks over their policy limits or risk appetite. Another factor impacting asset values is low and lagging capitalization (cap) rates. Industry participants are having a hard time determining cap rates in the current environment because of poor data, fewer transactions, rapid rate movements, and the uncertain interest rate path. If cap rates remain low and interest rates exceed them, it could lead to a negative leverage scenario for borrowers. However, investors expect to see increases in cap rates, which will negatively impact valuations, according to the CRE services and investment firm Coldwell Banker Richard Ellis (CBRE).[12]

Modernizing Concentration Risk Management

Background

In early 2007, after observing the trend of increasing concentrations in CRE for several years, the federal banking agencies released SR letter 07-1, "Interagency Guidance on Concentrations in Commercial Real Estate."[13] While the guidance did not set limits on bank CRE concentration levels, it encouraged banks to enhance their risk management in order to manage and control CRE concentration risks.

Key Elements to a Robust CRE Risk Management Program

Many banks have since taken steps to align their CRE risk management framework with the key elements from the guidance:

- Board and management oversight
- Portfolio management
- Management information system (MIS)
- Market analysis
- Credit underwriting standards
- Portfolio stress testing and sensitivity analysis
- Credit risk review function

Over 15 years later, these foundational elements still form the basis of a robust CRE risk management program. An effective risk management program evolves with the changing risk profile of an institution. The following subsections expand on five of the seven elements noted in SR letter 07-1 and aim to highlight some best practices worth considering in this dynamic market environment that may modernize and strengthen a bank's existing framework.

Management Information System

A robust MIS provides a bank's board of directors and management with the tools needed to proactively monitor and manage CRE concentration risk. While many banks already have an MIS that stratifies the CRE portfolio by industry, property, and location, management may want to consider additional ways to segment the CRE loan portfolio. For example, management may consider reporting borrowers facing increased refinance risk due to interest rate fluctuations. This information would aid a bank in identifying potential refinance risk, could help ensure the accuracy of risk ratings, and would facilitate proactive discussions with potential problem borrowers.

Similarly, management may want to review transactions financed during the real estate valuation peak to identify properties that may currently be more sensitive to near-term valuation pressure or stabilization. Additionally, incorporating data points, such as cap rates, into existing MIS could provide useful information to the bank management and bank lenders.

Some banks have implemented an enhanced MIS by using centralized lease monitoring systems that track lease expirations. This type of data (especially relevant for office and retail spaces) provides information that allows lenders to take a proactive approach to monitoring for potential issues for a particular CRE loan.

Market Analysis

As noted previously, market conditions, and the resulting credit risk, vary across geographies and property types. To the extent that data and information are available to an institution, bank management may consider further segmenting market analysis data to best identify trends and risk factors. In large markets, such as Washington, D.C., or Atlanta, a more granular breakdown by submarkets (e.g., central business district or suburban) may be relevant.

However, in more rural counties, where available data are limited, banks may consider engaging with their local appraisal firms, contractors, or other community development groups for trend data or anecdotes. Additionally, the Federal Reserve Bank of St. Louis maintains the Federal Reserve Economic Data (FRED), a public database with time series information at the county and national levels.[14]

Commercial Real Estate: Key Trends and Risk: continued on Next Page

Commercial Real Estate: Key Trends and Risk continued from Previous Page

The best market analysis is not done in a vacuum. If meaningful trends are identified, they might inform a bank's lending strategy or be incorporated into stress testing and capital planning.

Credit Underwriting Standards

During periods of market duress, it becomes increasingly important for lenders to fully understand the financial condition of borrowers. Performing global cash flow analyses can ensure that banks know about commitments their borrowers may have to other financial institutions to minimize the risk of loss. Lenders should also consider whether low cap rates are inflating property valuations, and they should thoroughly review appraisals to understand assumptions and growth projections. An effective loan underwriting process considers stress/sensitivity analyses to better capture the potential changes in market conditions that could affect the ability of CRE properties to generate sufficient cash flow to cover debt service. For example, in addition to the usual criteria (debt service coverage ratio and LTV ratio), a stress test might include a breakeven analysis for a property's net operating income by increasing operating expenses or decreasing rents.

A sound risk management process should identify and monitor exceptions to a bank's lending policies, such as loans with longer interest-only periods on stabilized CRE properties, a greater reliance on guarantor support, nonrecourse loans, or other deviations from internal loan policies. In addition, a bank's MIS should provide sufficient information for a bank's board of directors and senior management to assess risks in CRE loan portfolios and identify the volume and trend of exceptions to loan policies.

Additionally, as property conversions (think office space to multifamily) continue to crop up in major markets, bankers could have proactive discussions with real estate investors, owners, and operators about alternative uses of real estate space. Identifying alternative plans for a property early could help banks get ahead of the curve and minimize the risk of loss.

Portfolio Stress Testing and Sensitivity Analysis

Since the onset of the pandemic, many banks have revamped their stress tests to focus more heavily on the CRE properties most negatively affected, such as hotels, office space, and retail. While this focus may still be relevant in some geographic areas, effective stress tests need to evolve to consider new types of post-pandemic scenarios. As discussed in the CRE-related Ask the Fed webinar mentioned earlier, 54 percent of the respondents noted that the top CRE concern for their bank was maturity/refinance risk, followed by negative leverage (18 percent) and the inability to accurately establish CRE values (14 percent). Adjusting current stress tests to capture the worst of these concerns could provide insightful information to inform capital planning. This process could also offer loan officers information about borrowers who are especially vulnerable to interest rate increases and, thus, proactively inform workout strategies for these borrowers.

Board and Management Oversight

As with any risk stripe, a bank's board of directors is ultimately responsible for setting the risk appetite for the institution. For CRE concentration risk management, this means establishing policies, procedures, risk limits, and lending strategies. Further, directors and management need a relevant MIS that provides sufficient information to assess a bank's CRE risk exposure. While all of the items mentioned earlier have the potential to strengthen a bank's concentration risk management framework, the bank's board of directors is responsible for establishing the risk profile of the institution. Further, an effective board approves policies, such as the strategic plan and capital plan, that align with the risk profile of the institution by considering concentration limits and sublimits, as well as underwriting standards.

Conclusion

Community banks continue to hold significant concentrations of CRE, while numerous market indicators and emerging trends point to a mixed performance that is dependent on property types and geography. As market players adapt to today's evolving environment, bankers need to remain alert to changes in CRE market conditions and the risk profiles of their CRE loan portfolios. Adapting concentration risk management practices in this changing landscape will ensure that banks are ready to weather any potential storms on the horizon. ■

* *The authors thank Bryson Alexander, research analyst, Federal Reserve Bank of Richmond; Brian Bailey, commercial real estate subject matter expert and senior policy advisor, Federal Reserve Bank of Atlanta; and Kevin Brown, advanced examiner, Federal Reserve Bank of Richmond, for their contributions to this article.*

1. The November 2022 Financial Stability Report released by the Board of Governors highlighted several key actions taken by the Federal Reserve following the 2007–2009 financial crisis that have promoted the resilience of financial institutions. This report is available at www.federalreserve.gov/publications/files/financial-stability-report-20221104.pdf.

Commercial Real Estate: Footnotes continued on Next Page

2. See Kyle Binder, Emily Greenwald, Sam Schulhofer-Wohl, and Alejandro H. Drexler, "Bank Exposure to Commercial Real Estate and the COVID-19 Pandemic," Federal Reserve Bank of Chicago, 2021, available at www.chicagofed.org/publications/chicago-fed-letter/2021/463.

3. The November 2022 Supervision and Regulation Report released by the Board of Governors defines concentrations as follows: "A bank is considered concentrated if its construction and land development loans to tier 1 capital plus reserves is greater than or equal to 100 percent or if its total CRE loans (including owner-occupied loans) to tier 1 capital plus reserves is greater than or equal to 300 percent." Note that this method of measurement is more conservative than what is outlined in Supervision and Regulation (SR) letter 07-1, "Interagency Guidance on Concentrations in Commercial Real Estate," because it includes owner-occupied loans and does not consider the 50 percent growth rate during the prior 36 months. SR letter 07-1 is available at www.federalreserve.gov/boarddocs/srletters/2007/SR0701.htm, and the November 2022 Supervision and Regulation Report is available at www.federalreserve.gov/publications/files/202211-supervision-and-regulation-report.pdf.

4. See SR letter 07-1, available at www.federalreserve.gov/boarddocs/srletters/2007/SR0701.htm.

5. Using Call Report data, we found that, as of December 31, 2022, 31 percent of all financial institutions had construction and land development loans to tier 1 capital plus reserves greater than or equal to 100 percent and/or total CRE loans (including owner-occupied loans) to tier 1 capital plus reserves greater than 300 percent. As noted in footnote 3, this is a more conservative measure than the SR letter 07-1 measure because it includes owner-occupied loans and does not consider the 50 percent growth rate during the prior 36 months.

6. See the November 2022 Supervision and Regulation Report.

7. See Arpit Gupta, Vrinda Mittal, and Stijn Van Nieuwerburgh, "Work from Home and the Office Real Estate Apocalypse," November 26, 2022, available at https://dx.doi.org/10.2139/ssrn.4124698.

8. See Natalie Wong and John Gittelsohn, "Wall Street Banks Are Exploring Sales of Office Loans in the U.S.," American Banker, November 11, 2022, available at www.americanbanker.com/articles/wall-street-banks-are-exploring-sales-of-office-loans-in-the-u-s.

9. An Ask the Fed session presented by Brian Bailey on November 16, 2022, highlighted the significant volume of office loans at fixed and floating rates set to mature in the coming years. In 2023 alone, nearly $30.2 billion in floating rate and $32.3 billion in fixed rate office loans will mature. This Ask the Fed session is available at https://bsr.stlouisfed.org/askthefed/Home/ArchiveCall/329 (login required).

10. See Konrad Putzier and Peter Grant, "Investors Yank Money from Commercial-Property Funds, Pressuring Real-Estate Values," Wall Street Journal, December 6, 2022, available at www.wsj.com/articles/investors-yank-money-from-commercial-property-funds-pressuring-real-estate-values-11670293325.

11. See the November 16, 2022, Ask the Fed session, which was presented by Brian Bailey and is available at https://bsr.stlouisfed.org/askthefed/Home/ArchiveCall/329 (login required)..

12. See "U.S. Cap Rate Survey H1 2022," CBRE, 2022, available at www.cbre.com/insights/reports/us-cap-rate-survey-h1-2022.

13. See SR letter 07-1, available at www.federalreserve.gov/boarddocs/srletters/2007/SR0701.htm.

14. The FRED database is available at https://fred.stlouisfed.org/.

Do You Know About Community Bankers Services & Insurance?

Save money AND support your association! Providing best of class services, products and insurance to member banks has been the mission of Community Bankers Services and Insurance (CBSI) since 1984. CBSI provides exclusive member pricing on a range of products and services and the benefits of joint purchasing power, while at the same time benefiting the association.

CBSI has done the research for you! Endorsed service providers undergo a rigorous due diligence process, 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 services and consider new partnerships, often suggested by members. Your bank, and your association—the only association *exclusively* representing Iowa's community banks—will benefit when you have a choice of the best providers. ■

Raccoon Valley Bank Community House Reopens

Adel Partners Chamber of Commerce and Raccoon Valley Bank employees held a ribbon-cutting ceremony for the reopening of the Raccoon Valley Bank Community House on August 3, celebrating the House's new remodeling. Thomas Book, Raccoon Valley Bank's Chief Credit Officer, said, "Part of this grand reopening is to celebrate getting this facility back to the public."

The Community House has been reopened after a three-year absence. It closed in 2020 during the COVID pandemic, and stayed closed for a renovation. New rafters and a new roof were installed while one of the lower walls was shored up in the basement. Interior renovations included new paint, floor coverings and all new furnishings. Landscaping was done and four concrete cornhole boards were added to the side lawn.

Racoon Valley Bank employees and Adel Partners Chamber of Commerce members officially reopen the Community House. Among those pictured are: (front row, 2nd from left) Liz Garst, one of the bank's owners and Board Directors, (second row, 3rd from left) Terry Nielsen, bank president and CEO, (second row, 4th from left) Thomas Book, Chief Credit Officer, and (cutting the ribbon) Jesse Woerdehoff, the bank's Adel Market President.

"We look forward to the history that's going to come from the continued use of this in our community," said Jason Urban, chair of the Adel Partners Chamber of Commerce Board. "We really want to thank Raccoon Valley Bank, its board and all of the vested members that have helped renovate this and make it a great facility. What a beautiful venue and thanks for adding to the historical character that is everything Adel."

The Community House was originally built as a church in 1862. Raccoon Valley Bank acquired the property in 1996 and renovated it to become a community meeting space.

Since its opening, it has been a gathering place for anyone in the community, not just bank customers, comfortably hosting up to 60 people. "We've seen it used for birthday parties, wedding celebrations, club and civic organization meetings, all sorts of things," Book said. "We're looking forward to having this space again where the community can come together and enjoy one another."

The Community House is available for the public to rent at no charge; a calendar to view available dates can be found at raccoonvalleybank.com/community-house. Booking for the next year's reservations will be available on November 1st of each year. Rental requests can be made by emailing adelretail@raccoonvalleybank.com. The outdoor spaces will be available to the public when the Community House isn't rented.

Book was happy to see the community house reopen. "The bank and the Garst family specifically have been very generous in their original concept here and then continuing to reinvest and upgrade it and put it in good shape for a long time to come," he said.

Raccoon Valley Bank Community House's newly remodeled interior and exterior.

CBI 4TH ANNUAL PHEASANT HUNT

Held October 18th at Doc's Hunt Club in Adel, IA.

Jorge Padilla
(Fidelity Bank, Ankeny)

Dan Bartlett

Dave Caris
Community Bankers of Iowa

Mark Reece

Doug Massop

Jeremy Voss
Kevin Ridout
(Central State Bank, WDM)

Mary Voss
(Bell Bank, Norwalk)

Chad McDonald
(Central State Bank, WDM)

Kyle Auten
(Iowa Trust & Savings Bank, Emmetsburg)

Jorge Padilla giving some attention to a couple of dogs back from the hunt.

2024 CBI Event Schedule

This is a tentative schedule; dates are subject to change.

March 26
CBI Legislative Reception
Iowa Taproom - *Des Moines*

April 4-5
CBI Leaders of Tomorrow 22nd Annual Leadership Development Conference
Location to be determined

July 17-19
CBI 53rd Annual Convention
Roof Garden / Majestic Pavilion
Arnolds Park, Iowa

September 9
CBI 17th Annual Golf Classic
Hyperion Field Club - *Johnston, Iowa*

October 17
CBI 5th Annual Pheasant Hunt
Doc's Hunt Club - *Adel, Iowa*

November: TBD
Midwest Ag Conference
Virtual event

Fall 2024: TBD
CBI Leaders of Tomorrow Business Meeting
Location to be determined

Other Industry Events:

March 14-17
ICBA Live Annual Convention
Orlando World Center Marriott
Orlando, Florida

April 9-11
SHAZAM Forum
Des Moines, Iowa

April 11
Iowa Division of Banking
Day with the Superintendent
Location to be determined

May: TBD
ICBA Capital Summit
Washington DC

Stay current on the latest state and federal regulatory news

Get a *Mid-Week Account*

Mid-Week Account is a weekly e-newsletter that keeps you informed of current regulatory news and guidance at the State and Federal levels, delivered to your email inbox every Wednesday.

Is everyone in your organization receiving *Mid-Week Account*? If not, **Subscribe Online**, or send a list of the names and email addresses that you would like added to the recipient list to klee@cbiaonline.org.


Not displaying properly? View this newsletter as Webpage.

CBI COMMUNITY BANKERS OF IOWA MID-WEEK ACCOUNT

SUBSCRIBE

March 8, 2023

I WANT A PARTNER THAT PUTS MY SUCCESS FIRST.
That's why I choose SHAZAM

Key senators urge SBA to address concerns with 7(a) proposals

Senate Small Business Committee Chairman Ben Cardin (D-Md.) and Ranking Member Joni Ernst (R-Iowa) expressed concerns with proposals that would undermine the Small Business Administration's 7(a) loan program.

In a joint letter, Cardin and Ernst called on the SBA to go back to the drawing board on its proposals to loosen underwriting requirements and lift the moratorium on the number of non-federally regulated institutions, including nonbank fintech companies, that can make loans under the 7(a) program. The senators said the proposed rules establish broad and sweeping

Flourish

Written By: Rebeca Romero Rainey, President & CEO of ICBA

Navigating the regulatory landscape is like getting on a roller coaster. There are ups and downs, and you're never sure what's around the next turn or when you're going to get thrown for a loop. Right now, that wild ride comes courtesy of Silicon Valley Bank and other bank failures, and we're looking at potential rule writing as a result.

When a financial crisis or series of events triggers legislative and regulatory investigation, the de facto response is to deepen regulation. In fact, this reaction is the reason I got involved in ICBA in the first place: I saw the need for advocacy at the state and national levels. We were facing a new set of mortgage rules that didn't help the customer or make things better. They didn't allow me to support my community, and I realized that those writing the rules didn't understand how they affect our day-to-day abilities to serve our customers.

That's why what we do at ICBA is so important. We focus on educating what the intended or unintended response of an action may be. We advocate for community bankers to continue to have an environment where they can help their customers, and we respond creatively to ensure our customers still have access to solutions that meet their needs.

Fortunately, community bankers excel at supporting our customers despite regulatory hurdles. In fact, I was inspired by a conversation I heard on the "A Bank Culture that Works" episode of the Independent Banker podcast (icba.org/podcast). Ann Buckmiller, director of compliance at Reliabank Dakota in South Dakota, talked about her job in compliance as a way to help meet customer needs, and at the same time, ensure that the bank does what it needs to do to follow the rules.

Her comments struck me, because I realized our job is to do precisely what Ann said: take control of the situation by knowing what the rules are, recognizing where they fall short of meeting customer needs and innovating to solve for any challenges. It's about taking what's required of us and making it work for our customers and communities.

> *"We advocate for community bankers to continue to have an environment where they can help their customers, and we respond creatively to ensure our customers still have access to solutions that meet their needs."*

There's no question regulation makes for a bumpy ride, but it's an uphill climb we've experienced countless times. The more we can keep our focus on our customers and their needs and differentiate our relationship-based business model (see our National Campaign Toolkit at icba.org/campaign for resources), the smoother the journey will be. So, let's jump in the driver's seat and advocate for community banking. We're going to need to buckle up, but by keeping our customers as our chief priority, we may just be able to enjoy the ride. ■

As well as being President & CEO for ICBA, Rebeca Romero Rainey is CEO of Centinel Bank in Taos, New Mexico. Connect with Rebeca on Twitter @romerorainey.

From the Top

Written By: Derek Williams, Chairman of ICBA

I've never been prouder to be a community banker than I have this year. As ICBA chairman, I have had the opportunity to tour the country, meeting community bankers from all over. I have consistently heard stories of how we support those who need us: our communities. Everything I have believed about community banking is proving true this year.

In fact, it has struck me that people work at community banks because they are good people, not the other way around. People who get into community banking have compassion and care in their DNA. There's a commitment to the community that's based on one fact: Service is not something we strive for; it's simply a part of who we are.

It's also what makes it unnecessary to strap us with heavy-handed regulation. Compliance, at its core, is about treating people fairly, and we do that naturally. Our spirit of service gives us a huge head start on meeting the compliance and regulatory standards set for us. We are fair because that's who we are. We are equitable because that's who we are. We do the right thing by the right people because that's who we are. It's why we advocate for tiered regulation. We constantly remind regulators that our model is different and intrinsically lends itself to being fair by virtue of the way we run our banks and care for our communities.

At the risk of oversimplifying it, service means everything to community banks. Just look at this month's ICBA Community Bank Service Award winners and the ways they are going above and beyond. It's not about just cutting a large check; it's about investing time in helping our communities thrive. We've got people serving on community boards, providing great advice, helping run civic events and so much more. Community banks have smart, talented people, and we all should be proud of the time they commit to our communities.

The same stands true at the national level. I encourage you to get involved in ICBA and to help advocate on behalf of our community of community banks across this great nation. Check out ICBA's Be Heard Grassroots Action Center (icba.org/advocacy) for the latest on issues that need your support and how to get involved.

"There's a commitment to the community that's based on one fact: Service is not something we strive for; it's simply a part of who we are."

What we do matters, and we need to protect our way of doing business. We are here to serve, and collectively, we need to work to ensure that we have an environment that allows us to do just that. ■

Quote of the Month

"Nobody cares how much you know until they know how much you care."

—President Theodore Roosevelt

Derek Williams is President and CEO of Century Bank & Trust in Milledgeville, Georgia.

Rural Mainstreet Economic Survey

Rural Mainstreet Economy Expanding in June

Bankers Ranked Federal Reserve Rate Hikes as Greatest Challenge

June 2023 Survey Results at a Glance:

- June's overall reading, the Rural Mainstreet Index (RMI), rose above growth neutral for the month to its highest level since May 2022.
- Bank CEOs ranked Federal Reserve rate hikes as the greatest challenge in the 12 months ahead with rising bank regulations a distant second.
- More than half of bankers reported that higher interest rates were impairing farm equipment purchases.
- Farm equipment sales declined for only the third time in the past 31 months.
- On average, bankers expect farm loan defaults to expand less than 1% over the next 12 months.
- The region exported $13.3 billion of agriculture and livestock in 2022. This represented 26.5% growth from the previous year. Mexico was the chief destination, accounting for 55.2% of the region's farm exports.

After declining below growth neutral for March, the overall Rural Mainstreet Index for June expanded above the threshold for a third straight month to its highest level since May 2022, according to the June monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The region's overall reading in June climbed to 56.9, the highest reading since May 2022 and up from last month's 55.8. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

"After negative growth during the first quarter of this year, the Rural Mainstreet economy experienced positive, but slow, economic growth for all of the second quarter. Only 3.4% of bankers reported a downturn in economic conditions for the month," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Farming and Ranching Land Prices: The region's farmland price index rose to 59.3 in June from 56.3 in May. This was the 33rd straight month that the index has advanced above 50.0.

Farm Equipment Sales: The farm equipment-sales index fell to a weak 48.3 from 50.2 in May. Farm equipment sales declined for only the third time in the past 31 months. "Higher borrowing costs have begun to negatively impact purchases of farm equipment," said Goss.

More than half of bankers reported that higher interest rates were impairing farm equipment purchases.

On the other hand, Mike Van Erdewyk, CEO of Breda Savings Bank in Breda, Iowa, said, "Higher interest rates are not having a significant impact on farm operations yet as many farmers have paid down operating lines with grain sales."

Rural Mainstreet Economy Expands in July

Non-farm Investors Purchased 17.1% of Farmland Sales in Region

July 2023 Survey Results at a Glance:

- July's overall reading, the Rural Mainstreet Index (RMI), rose above growth neutral for a fourth straight month.
- Farmland prices expanded for the 34th straight month.
- On average, non-farm investors secured approximately 17.1% of farmland sales in the region, up from 9.1% reported by bankers in April 2022.
- More than nine of ten, or 92.5%, indicated that the Fed should cease raising rates.
- More than three-fourths of bankers expect that Secretary Yellen's policy encouraging bank mergers and acquisition would damage community banks and farmers.

After declining below growth neutral in March, the overall Rural Mainstreet Index for July expanded above the threshold for a fourth straight month, according to the July monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The region's overall reading in July slipped to 55.6 from June's 56.9. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

"After negative growth during the first quarter of this year, the Rural Mainstreet economy experienced positive but slow economic growth for the second quarter and has now started the third quarter on a healthy note," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Farming and Ranching Land Prices: The region's farmland price index rose to 64.6 from 59.3 in June and 56.3 in May. This was the 34th straight month that the index has advanced above 50.0.

Bankers reported that, on average, non-farm investors secured approximately 17.1% of farmland sales in their area over the past six months. This is almost double the 9.1% reported by bankers in April 2022 when the same question was asked.

Farm Equipment Sales: The farm equipment-sales index for July stood at a tepid 50.0, which was up from 48.3 in June. "Higher borrowing costs have begun to negatively impact purchases of farm equipment," said Goss.

Banking: The July loan volume index declined to a still strong 75.9 from June's 79.2. The checking deposit index sank to 32.7 from 37.5 in June, and the index for certificates of deposit and other savings instruments decreased to a vigorous 71.2 from 76.8 for June.

Bank CEOs were asked to comment on the Federal Reserve's current short-term interest rate policy. More than nine of ten, or 92.5%, indicated that the Fed should cease raising rates. Only 7.5% indicated that the Fed should continue to raise short-term interest rates.

Rural Mainstreet Economy Slows in August

Bank CEOs Report Continuing Losses of Deposits

August 2023 Survey Results at a Glance:

- After four straight months of above growth neutral readings, the Rural Mainstreet Index (RMI) slumped to growth neutral, 50.0, in August.
- Farmland cash rents are expected to expand by 1.3% over the next year.
- Less than one-third of bank CEOs expect a "soft landing" for the economy. Approximately one-third anticipate a "hard landing," or negative growth from Federal Reserve rate hikes.
- Bankers reported continuing record low deposits.
- Only 14.8% expect a stronger farm economy one year out. Almost one-half, or 48.2%, forecast a weaker farm economy 12 months out.
- The region's agriculture exports **contracted** from $8 billion in the first half of 2022 to $6.8 billion for the same period in 2023 for a 14.6% **slump**.

The overall Rural Mainstreet Index (RMI) sank to a growth neutral reading for August after four straight months of readings above 50.0 according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The region's overall reading in August fell to 50.0 from July's much stronger 55.6. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

"This is the fifth consecutive month that the overall RMI has moved at or above growth neutral. However, I expect recent pullbacks in growth to push the Federal Reserve to forgo an interest rate increase at its next meetings on September 19-20," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

A large share of bankers support a cessation of rate increases. Said Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa: "In my view, the Federal Reserve should take a long pause on any further increase in interest rates. It's time for a breather."

Farming and Ranching Land Prices: The region's farmland price index dropped to 60.0 from 64.6 in July. This was the 35th straight month that the index has advanced above 50.0.

Farm Equipment Sales: The farm equipment-sales index for August slumped to 46.0 from July's weak 50.0. "This is the fourth time in the past 12 months that the index has fallen below growth neutral. Higher borrowing costs have begun to negatively impact purchases of farm equipment," said Goss.

Banking: The August loan volume index dipped to a still strong 75.0 from July's 75.9. The checking deposit index sank to 30.8 from 32.7 in July, and the index for certificates of deposits and other savings instruments decreased to a strong 69.2 from 71.2 for July.

"Higher short-term interest rates produced by Federal Reserve rate hikes over the past year continue to pose a significant threat to community banks by expanding the costs of customer deposits while the rates on bank loans have risen little over the same time period," said Goss.

Hiring: The new hiring index for August fell to 51.9 from July's 59.3. Over the past 12 months, the Rural Mainstreet Economy has expanded jobs by 2.8% compared to a lower 2.0% for urban areas of the same 10 states.

Tables 1-4 summarize survey findings.

Table 1: Rural Mainstreet Economy June / July / August 2023: One Year Ago and Last Two Months (index > 50 indicates expansion)

	June 2022	July 2022	August 2022	May 2023	June 2023	July 2023	August 2023
Area economic index	49.8	46.0	44.0	55.8	56.9	55.6	50.0
Loan volume	78.5	72.0	73.9	75.0	79.2	75.9	75.0
Checking deposits	57.4	47.9	47.9	22.0	37.5	32.7	30.8
CDs and savings instruments	35.2	33.3	35.4	70.0	76.8	71.2	69.2
Farmland prices	76.8	66.0	60.0	56.3	59.3	64.6	60.0
Farm equipment sales	71.4	56.5	45.9	50.2	48.3	50.0	46.0
Home sales	55.4	48.0	44.0	55.8	48.2	55.8	59.3
Hiring	57.4	60.9	52.0	58.0	58.9	59.3	51.9
Retail business	48.2	46.0	48.0	56.0	56.9	59.6	51.9
Confidence index (area econ. 6 mos. out)	33.9	26.0	38.0	38.5	43.1	44.4	38.9

See next page for more results tables. Continue reading the June, July and August 2023 Rural Mainstreet Reports on our Community Banking News Blog, under the News tab at cbiaonline.org.

Table 2: Rural Mainstreet Economy June 2023	Percentage of bankers reporting			
	Little or no impact	Modest negative	Negative	Significant negative
How have higher interest rates on farm operating loans affected farm borrowing:	44.4%	37.1%	18.5%	0.0%
	A Decline	Unchanged -0.9% to +0.9%	Increase 1% to 5%	Increase More than 5%
Regarding farm loan defaults in your area over the next 12 months, what do you expect?	0.0%	85.7%	14.3%	0.0%

Table 2 (continued)	Other	Higher short-term rates	Lower farm income	More bank regulations	Federal Reserve hikes
Which of the following represents the biggest challenge to your bank's successful 2023-24 operations:	4.1%	14.2%	10.3%	25.0%	46.4%

Table 3: Rural Mainstreet Economy July 2023	Percentage of bankers reporting			
	Devastating	Damaging	Little impact	Positive
Treasury Secretary Yellen supports the policy of bank mergers and acquisitions as a partial solution to U.S. bank challenges. How would this policy affect community banks?	25.9%	51.9%	14.8%	7.4%
	Less than 10%	10% to 19%	20% to 32%	33% to 50%
What percent of agriculture land sales in your area over the past six months have been made to non-farmer investors?	42.3%	11.5%	26.9%	19.3%
	Cease raising interest rates		Continue to raise rates	
Regarding the Federal Reserve's short-term interest rates, the Fed should:	92.5%		7.5%	

Table 4: Rural Mainstreet Economy August 2023	Percentage of bankers reporting				
	Much Weaker	Weaker	No Change	Stronger	Much Stronger
A year from now, what do you expect farm financial conditions to be?	0.0%	48.2%	37.0%	14.8%	0.0%
	Decrease 1% to 5%	No Change	Increase 1% to 5%	Increase 6% to 9%	Increase More Than 9%
What change in cash rents do you expect for grain land over the next year?	7.4%	51.7%	33.5%	7.4%	0.0%
	No Landing (Current Pace)	Soft Landing 1% to 2.5%	Bumpy Landing 0% to 0.9%	Hard Landing -3.0% to 0%	Crash Landing Downturn Greater Than -3%
What impact on growth do you expect from Federal Reserve rate hikes?	0.0%	29.6%	37.0%	33.4%	0.0%

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

Follow Ernie Goss on Twitter www.twitter.com/erniegoss