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Stacy Snyder 515-468-9688
Doug Pfeiler 402-480-0333
April 2018 is Community Banking Month in Iowa. A nationwide celebration, Community Banking Month recognizes the many contributions community banks make to their customers and communities each and every day. Spread the word about what makes local businesses and your bank an integral part of your community and encourage your customers to Go Local!

Have you heard of “Go Local?”

The Go Local campaign was launched in October 2011 with people encouraging others to purchase local food and eat at restaurants that use local food sources. Since then, the program has celebrated many milestones and continues to grow in popularity and geographic reach. The movement has since spread to small businesses of all kinds.

Through the Go Local initiative, CBI strives to provide community bankers with access to resources and information to help them sustain their own community’s Go Local campaigns. With tips on partnering with local restaurants and small businesses, the Go Local initiative can have broader benefits than just generating business for the community banker. Go Local keeps business in the local community, generating revenue for small businesses, creating jobs and instilling a sense of community in all those who participate.

There are numerous ways to promote Community Banking Month and make your bank shine throughout April:

- **Use “Go Local”** as a way to open a conversation with new small businesses in town. By doing so, you can help differentiate your community bank from other financial institutions in your area.
- When engaging in social media, be sure to use the #BankLocally and #GoLocal hashtags to be a part of the conversation.
- **Offer to do an information session for local prospective entrepreneurs** who are interested in starting a small business. Outline how the application process works and how community banks like yours have the local expertise to help them get started.
- **Partner with the local chamber of commerce** or county government, hold a small business forum to help connect successful local small businesses with start-ups.
- **Partner with the local chamber of commerce** to host “Go Local” mixers to help connect small business owners with local providers to reward customers who shop locally.
- **Profile your small business customers** in your local advertising. Demonstrate that you are making a real difference in the community by supporting local small businesses.
- Work with your small business customers to **host guest blog posts** where you can share content and speak to new audiences on your blog as well as theirs.
- Set up a place in your lobby to **highlight local small businesses** your bank supports.
- **Have a contest** to encourage your consumer banking customers to use as many local merchants as possible. Offer prizes supplied by the small business owners.
- **Tie in new products and services.** While you are promoting Community Banking Month, include new services or products available to customers.
- **Share your bank’s “fascinating facts”.** Tell everyone what makes community banks like yours great. Print trivia about your bank or community banking so your customers can see the facts.

CBI offers more ideas in our Community Banking Month Marketing Toolkit to help you jump start your Community Banking Month and Go Local campaigns. Containing talking points, celebration and marketing ideas, social media tips, sample radio ads and more, the Toolkit is a great way to spread the word about the importance of community banks. Download it here.

No matter how you celebrate Community Banking Month, share your story with us! Enter CBI’s Community Banking Month Best-of-the-Best Competition [see opposite page] and show all of Iowa how your bank is supporting your community, spreading the community banking message and Making A Difference on Main Street!

Show Your Support

Go Local logo window clings are available to help you promote going local in your community. The clings are offered at no charge to CBI members. And while you’re at it, make sure you have your 2018 CBI Member decal proudly displayed as well!

To request Go Local or 2018 CBI Member window clings, email cbia@cbiaonline.org or call 515.453.1495.
How do you encourage your customers and your community to “Go Local”?

ENTER CBI’S 2018 BEST-OF-THE-BEST COMPETITION!

How will your bank celebrate Community Banking Month and spread the “Making A Difference On Main Street” message? Enter CBI’s 2018 Best-of-the-Best Competition and let us know. Your bank could win a year of bragging rights and a pizza party for staff!

To enter, send us your photos, tweets, activities and whatever else tells us how your bank celebrated Community Banking Month in April, along with a completed 2018 CBI Best-of-the-Best Competition entry form. All submissions are due to the CBI office by May 11, 2018.

The winning bank will be announced and honored at the Kickoff Reception during our 47th Annual Convention in Okoboji in July, and will also be featured in the August edition of Community Banker Update and the CommonCENTS newsletters.

For more information, visit cbiaonline.org and check out Community Banking Month under the Events header.

Show us your photos, tweets, facebook posts, videos, pins...everything that tells us how your bank hosted Community Banking Month festivities. And remember...make sure to enter by May 11!

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— Ben Dvergsten, President – Security Trust and Savings Bank of Storm Lake

Security Trust and Savings Bank of Storm Lake is a large community bank headquartered in Storm Lake, IA. Chartered in 1908, the bank has grown to 20 employees and $200M in assets.
Community Bankers for Compliance

Reg E & Z to Be Discussed at Spring Seminar

CBI’s Community Bankers for Compliance Program (CBC) Spring Seminar is coming up April 10-11 in the Nationwide Room at Junior Achievement of Central Iowa in Des Moines. This two-day LIVE seminar provides you with up-to-date information, guidance for structuring and maintaining your bank’s compliance program, and a forum to discuss issues and exchange ideas with other community bankers. View Spring Seminar brochure.

Day 1 of this session will focus on Reg E (the Electronic Funds Transfer Act) and Reg DD (Truth in Savings). The Reg E presentation will be limited to Subpart A, the portion of the regulation that discusses issues such as distribution of electronic cards, error resolution, disclosures and more, including the changes to come April 1, 2018. Reg DD will be covered in its entirety. Day 2 will tackle Reg Z: TRID including all August 1, 2018 changes. The seminar will cover each provision in detail, with emphasis on the practical applications of the changes. Send your bank’s Compliance Officers and Lenders to get in-depth knowledge on these complex regulations!

CBC SPRING SEMINAR
APRIL 10-11, 2018
Junior Achievement of Central Iowa
Nationwide Room

Click the image for more info about the Community Bankers for Compliance Spring Session program and topics.

For current members of the CBC Program, attendance at the Spring Seminar is included with program enrollment. CBC members and non-members may choose to attend just one or both days of this informative regulatory policy seminar.

For more info or to register for the Spring Seminar, visit cbiaonline.org or contact Pretty Patel at 515.453.1495 or ppatel@cbiaonline.org.

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COMMUNITY BANKER UPDATE | MARCH/APRIL 2018 • BACK TO TOP | PREVIOUS PAGE | NEXT PAGE
The Leaders of Tomorrow (LOT) is a program created by CBI to enhance the growth, leadership, and networking skills of future banking leaders. LOT also encourages the leadership development of the next generation of community bankers by annually presenting two scholarships to deserving high school seniors. The winning students will each be awarded a $1,000 scholarship. Applicants will be evaluated on character, academics, community involvement, and essay content.

Requirements - All applicants must:
- Work at or have a parent, grandparent, or guardian who works at a bank that is a CBI member (secondary relatives such as siblings, aunts/uncles or cousins are not eligible);
- Write a brief, one-page essay detailing what role community banks play in their hometown;
- Submit a copy of high school transcript and indicate class rank;
- Submit letters of recommendation from two non-relatives;
- Include all community or extra-curricular activities they participated in;
- Complete and return the scholarship application.

If you have a child, grandchild, or an employee who will be graduating high school this spring, please encourage them to apply to the LOT Scholarship Program. All applications must be postmarked by May 1, 2018. Or, apply online at cbiaonline.org. For more information, call CBI at 515.453.1495 or email Krissy Lee at klee@cbiaonline.org.

Support the Future of Community Banking in Iowa

Nominate a Graduating High School Senior for the LOT Scholarship Program

The LOT Scholarship Program is open to graduating high school seniors who are looking to pursue a career in banking. To nominate a student, please submit the nomination form along with any additional supporting materials. The deadline for nominations is May 1, 2018. For more information, call 515.453.1495 or email klee@cbiaonline.org.

Sponsor the 2018 Money Smart Week Poster Contest At Your Bank

Marketing Poster Kit Available Now

Since 1999, Community Bankers of Iowa has hosted the Money Smart Week Poster Contest as part of Community Banking Month festivities in April. The contest encourages students to create posters that promote financial literacy. This year, the theme is "Why is it important to know about money?" Poster designs should answer the theme question and be creative, truthful, and clear. Prizes include a $600 Certificate of Deposit and $300 Certificates of Deposit.

To assist you in sponsoring the Poster Contest in your area, download CBI's Money Smart Week Poster Contest Marketing Kit. This kit includes rules and guidelines flyers, display posters, poster entry labels, a sample press release for local community media, and more. To download marketing materials, visit our website at cbiaonline.org -- look for “Money Smart Week Poster Contest” under the Events tab.

Teachers, parents and students should bring their completed poster entries to your participating bank branches in time to be displayed in your banks during Money Smart Week, April 21-28. Participating community banks should submit all poster entries to the CBI office for judging by Friday, May 4, 2018. All poster entries MUST have a completed poster entry label affixed to the back of the poster to be eligible—no exceptions! (Note: all posters submitted for judging cannot be returned.)

CBI will announce the 2018 Money Smart Week Poster Contest winners by May 15, 2018. If you have further questions, contact Krissey Lee at 515-453-1495 or klee@cbiaonline.org.
Reward Those Who Serve
Nominate an Iowa Community Banker for the Robert D. Dixon Founders’ Award

Over the last 47 years the leadership of CBI has provided direction, support, and guidance to your association. Without them, the spirit of the original founders would not have resulted in the useful organization serving you today. Each summer, we take a moment to honor one of those leaders with the Robert D. Dixon Founders’ Award, recognizing a community banker that has not only modeled the best in community leadership, but also in service to the community banking industry.

It is now that time for community bankers across the state to enter nominations for this prestigious award. Please take a moment to think about the bankers you have known who have demonstrated devotion, leadership and involvement with the community banking industry and CBI, and suggest someone for recognition this year.

The Robert D. Dixon Founders’ Award is an honor that will be recognized at a ceremony at CBI’s 47th Management Conference and Annual Convention, July 18-20, 2018 in Okoboji. The honoree will be featured in an issue of CBI’s weekly e-newsletter CommonCENTS, and the August edition of the Community Banker Update.

Make your nominations by May 25, 2018. The nomination form can be completed online and is found on the CBI website at cbiaonline.org, under “About CBI” and “Robert D. Dixon Founders’ Award”. There you may also download forms and submit to the CBI office by Mail: 521 E. Locust St Suite 202, Des Moines, IA 50309; by Fax at 515.453.1498; or by Email to dcaris@cbiaonline.org.

Please note that only CBI members are eligible to nominate for or to receive the Founders’ Award. Contact 515-453-1495 with questions.

Previous Robert D. Dixon Founders’ Award Recipients:

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<tr>
<th>Year</th>
<th>Recipient</th>
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<tr>
<td>2017</td>
<td>Robert Steen</td>
</tr>
<tr>
<td>2016</td>
<td>Robert J. Dixon</td>
</tr>
<tr>
<td>2015</td>
<td>Marti Rodamaker</td>
</tr>
<tr>
<td>2014</td>
<td>Steve Lane</td>
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<td>2013</td>
<td>Dale Torpey</td>
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<td>2012</td>
<td>C.E. Walsh</td>
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<tr>
<td>2011</td>
<td>Kurt Henstorf</td>
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<tr>
<td>2010</td>
<td>Larry Winum</td>
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<tr>
<td>2009</td>
<td>James Brown</td>
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<td>2008</td>
<td>Harold Harms</td>
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<td>2007</td>
<td>Steven Tschetter</td>
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<td>2006</td>
<td>Arnold C. Schulz</td>
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<td>2005</td>
<td>O. Jay Thomson</td>
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<tr>
<td>2004</td>
<td>Ollie Hansen</td>
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<tr>
<td>2003</td>
<td>Robert D. Dixon, John Spies, Richard E. Randall, John Dean</td>
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July 15-20, 2018
Bloomington, IL

For more information, contact Tracy at 800/736-2224.
Risk, Response, Reputation Seminar Coming April 24

CBI and Endorsed Member SHAZAM are hosting the live seminar “Risk, Response, Reputation” on April 24 at ABI Conference Room in Des Moines. A strong risk-prevention strategy is fundamental to the security of your institution. Your accountholders have high expectations regarding the security of their assets and physical well-being while at your location. Protecting your reputation is fundamental to the future of your institution. Real-world examples create a dynamic learning environment that provide a complete risk picture.

In this session you’ll learn best practices for:
• Enhancing your cybersecurity
• Limiting physical threats
• Responding to a crisis
• Formulating a comprehensive discussion to further protect your institution

The seminar is being presented by SHAZAM professionals Ben Haden, IT and risk consultant, Mike Burke, robbery and crisis management consultant, and Patrick Dix, VP public relations. The seminar will be held from 8:30 am to 3:30 pm, with registration beginning at 8:00 am. Lunch will also be provided. For more information and to register, visit our website.

Business valuations for:
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Webinars are one of the most popular training methods among community bankers, and CBI offers over 120 webinars every year! Covering critical issues for every level of the financial institution, industry experts with long-term, real-life, hands-on experience deliver high quality education sessions that are exclusively tailored for community bankers. Topics range from auditing, accounting, collections, compliance, HR, lending & more.

Check them out here: cbiaonline.org/webinars
CBI will hold an Ag Conference **May 31** at the Gateway Hotel & Conference Center in Ames, Iowa from 9:00 am - 4:00 pm. Join us for an in-depth look at several facets of the ag industry in Iowa.

Peoples Co. president Steve Breure will be on hand to discuss current land values. Keynote speaker Curt Covington, Senior Vice President of Agricultural Finance with Farmer Mac will educate conference attendees on current issues in Ag Finance. Special Guest football coach Matt Campbell will provide an update on ISU Athletics.

A panel discussion on new ag technologies, trends and challenges will also be included, featuring panelists Don Van Houweling from Van Wall and Clay Mitchell of Fall Line Capital, as well as a representative from the seed industry in Iowa.

Dermot Hayes from Iowa State University will sit on a second panel discussion, a China Trade/Tariffs update. New Iowa Secretary of Agriculture Mike Naig and Neil Dierks, CEO of National Pork Producers Council have been invited to attend this panel as well.

Registration for this event will open soon. For more information contact us at cbia@cbiaonline.org or 515-453-1495, or visit our website.
Announcing the 2018 CBI Speakers Bureau Guide
Your Resource to Find Industry Presenters for Your Seminars and Events

Need a speaker for your next event or seminar? CBI has done the research for you! The 2018 CBI Speakers Bureau Guide, a comprehensive list of over 100 experts on community banking industry issues, has been compiled to assist you in finding that perfect presenter. This valuable resource contains contact information for each speaker, presentation topics, and more.

The CBI Speakers Bureau Guide is available EXCLUSIVELY to CBI members! For your convenience, the 2018 CBI Speakers Bureau Guide is completely digital and free of charge.

To download the 2018 CBI Speakers Bureau Guide, submit your request by filling out the form on our website. The file will automatically download, in Excel spreadsheet format. (Sorry, we cannot provide the Guide in any other format).

Get your copy of the 2018 CBI Speakers Bureau Guide today!
For more info on the CBI Speakers Bureau or how to become a presenter, contact Jackie Haley at 515.453.1495 or jhaley@cbiaonline.org.

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A rising interest rate environment has far-reaching implications for America’s farmers and ranchers. Higher interest rates could impact farmers’ income statements by affecting commodity prices and interest expenses (Henderson, 2018; Kuhns and Patrick, 2018). Increasing interest rates are also likely to impact farmers’ balance sheets by impacting the market value of both their assets and liabilities. The USDA currently projects that farm sector debt has increased by more than 30% over the last decade, even after adjusting for inflation. But farm asset values have also grown and the farm sector, in aggregate, still has relatively low leverage, with debt accounting for only 13% of asset values. This has left farmers with a record $2.7 trillion in equity at the end of 2017 according to current USDA projections (ERS, 2017), most of which is held in farm real estate (Figure 1). If farm assets decline in value or farm debt rises more quickly than assets, farm equity is eroded and, with it, the hard work and savings of millions of farmers and ranchers. Since the market value of assets and liabilities is affected by interest rate fluctuations, farm equity is also sensitive to interest rate changes.

Analysis of the interest rate risk inherent in farmers’ balance sheets has often focused on the direct impact of interest rate changes on asset values. Long-run interest rates have been used to proxy farmland capitalization rates, and rising rates could reduce the land values supported by current income levels (Schnitkey and Sherrick, 2011). Rising interest rates can also have a direct impact on the value of farmers stored commodity inventories by reducing the value of their future revenue streams (Henderson, 2018). While often not explicitly specified, these types of analyses are related to the financial concept of duration, which is often used in financial analysis to measure the average timing of a stream of cash flows. Modified duration can be used to gauge the financial instrument’s sensitivity to interest rate movements. Differences between the timing the cash flows associated with farmers’ assets and liabilities, often referred to as a duration gap, can also expose farmers’ balance sheets to interest rate risk.

Using duration to measure the farm sector’s duration gap or the difference between the timing of the cash flows associated with the sector’s assets and liabilities, this analysis can be used to determine how the equity in farm operations is impacted by changes in interest rates. The sections below outline the basics of financial duration, demonstrate how a single balance sheet is affected by changing interest rates, and then apply these concepts to the U.S. level to show how farm sector equity may be impacted by changes in interest rates. Practical implications of the exposure to interest rate risk are provided along with guidance for managing the risk exposure for farm businesses.

This article illustrates how duration can be applied to farmers’ balance sheets. After illustrating their application, the concepts are used to measure the farm sector’s duration gap or the difference between the timing of the cash flows associated with the sector’s assets and liabilities. Since equity is the difference between assets and liabilities, this analysis can be used to determine how the equity in farm operations is impacted by changes in interest rates. The sections below outline the basics of financial duration, demonstrate how a single balance sheet is affected by changing interest rates, and then apply these concepts to the U.S. level to show how farm sector equity may be impacted by changes in interest rates. Practical implications of the exposure to interest rate risk are provided along with guidance for managing the risk exposure for farm businesses.

Duration Applied to the Farm Balance Sheet

In finance, an asset’s value is often expressed as the sum of the present value of its future cash flows. Duration is used to provide a measure of the timing of cash flows associated with a given financial instrument (Macaulay, 1938). When calculating duration, the timing of each cash flow is weighted by the size of the present value of that cash flow relative to the present value of all cash flows:

\[
\text{Macaulay Duration (Years)} = \sum_{i=1}^{n} \text{time}_i \times \frac{\text{PV of Cash Flow}_i}{\text{PV of All Cashflows}}
\]

Because duration considers the timing and size of cash flows as well as the discount rate used to calculate the present value of future cash flows, it can be thought of as measuring the weighted average timing of the cash flows generated by a given asset or liability. Short-term assets and liabilities have lower duration values because cash flows happen over a short period, whereas long-term assets and liabilities have higher duration values because cash flows are more spread out over a longer period.
Applying duration to the cash flows associated with a farm operation’s debt provides a way to measure the average timing of cash flows due from a given liability. For example, a farm-operating loan with a single payment due in 12 months would have a duration of 1.0 year. On the other hand, a 15-year fixed rate farm real estate loan has an approximate duration of 9.5 years if the payments do not vary during the life of either debt. Even if two loans have the same term, they may not have the same duration if there are differences in the size or timing of payments. Figure 2 demonstrates this concept by calculating the duration of two long-term real estate loans, each with a term of 15 years. The first loan is fully paid off at the end of the 15-year term (typically referred to as being fully amortizing), while the second has a 25-year amortization period. The balance remaining after the 15-year term is due as a balloon payment. Although the loans have the same 15-year term, the loan with the balloon payment has more cash flow weighted in later years and thus has a longer duration.

Compared to calculating the duration of farm debt, where the timing of cash flows is often known, the application of duration to farmers’ assets can require careful consideration of the underlying cash flows. Once the timing of cash flows is determined, the same analysis can also be applied to a farm operation’s assets to understand the average timing of the cash inflows they generate. For example, farmland can generate cash flows in the form of annual lease payments, or the sale of crops and livestock can generate cash flows in the form of one-time cash payments.

While understanding the timing of cash flows provides useful information on financial instruments, the idea of duration has been extended to provide an indication of the instrument’s interest rate sensitivity. Modified duration provides a useful extension of duration that measures the change in the value of an asset resulting from a change in market interest rates (Redington, 1952). Modified duration is the change in the value of an asset or liability given a change in market interest rates. For example, if a farm loan had a modified duration of 1.5, a 1-percentage point increase in interest rates would cause a 1.5% decrease in the value of the loan. This interpretation of modified duration is incredibly powerful: In one number, an analyst, portfolio manager, banker, agricultural lender, or farmer can measure exactly how much interest rate risk exists on any asset or liability. The higher the number, the greater the change in the value of the asset or liability in response to movements in market interest rates and therefore, the greater the interest rate risk:

\[
(2) \quad \text{Modified Duration (D)} = \frac{\text{Macaulay Duration}}{1+y}
\]

\[
(3) \quad \Delta \text{Value} = -\text{Modified Duration} \times \Delta \text{Interest Rates} \times \text{Value of Asset or Liability}
\]

Both assets and liabilities are exposed to changes in interest rates. Falling interest rates lead both asset and liability market values to rise by increasing the present value of associated cash flows, while rising interest rates decrease the present value of future cash flows, causing the market value of asset and liability values to decline. For a farmer, the expected rise in interest rates will cause the market value of assets and debt to fall, all else equal. Whether the market value of a farmer’s equity rises or falls with interest rates depends on the relative sensitivity of assets and debt. However, the market value of equity must be exposed to interest rate risk since it is the difference between assets and liabilities and each is exposed to interest rate risk.

Since modified duration measures this sensitivity, the weighted difference between the modified duration of assets and liabilities, typically referred to as the duration gap, can be used to measure the sensitivity of equity to interest rate fluctuations:

\[
(4) \quad \text{Duration Gap} = \text{Duration}_{\text{Assets}} \times \text{Liabilities} - \frac{\text{Duration}_{\text{Liabilities}}}{\text{Assets}}
\]

Once calculated, the duration gap can be combined with a farmer’s current asset position and the interest rate change to determine the movement in equity:

\[
(5) \quad \Delta \text{Equity} = -\text{Assets} \times \text{Duration Gap} \times \Delta \text{Interest Rates}
\]

If assets have a longer duration than liabilities, the duration gap is positive, and the value of equity and a rising interest rate environment will reduce that value of equity. Conversely, if the debt has a longer duration, the duration gap will be negative, and a rising interest rate environment will increase that value of equity.

### Farmland and Balance Sheet Duration Gaps

Duration gap analysis has been used extensively by the banking and insurance sectors for decades as a way to measure and manage portfolio interest rate risk (Bierwag and Kaufman, 1985). Taken one step further, portfolio managers can immunize their balance sheets from interest rate risk by selecting assets and debts that offset to a duration gap of zero (Redington, 1952). For perfectly immunized portfolios, interest rates can go up and down and the value of the equity in the portfolio will not budge because any changes to asset values will be perfectly offset by changes in the value of liabilities. Applying the analysis to the farm sector highlights the inherent interest rate risk in the farm sector’s balance sheet from differences in the duration between farmers’ assets and liabilities.

<table>
<thead>
<tr>
<th>Table 1. Farm Balance Sheet Duration Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet Category</td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td>Cash and Short-term Investments</td>
</tr>
<tr>
<td>Crop Inventory</td>
</tr>
<tr>
<td>Animals and Animal Products</td>
</tr>
<tr>
<td>Machinery and Vehicles</td>
</tr>
<tr>
<td>Real Estate</td>
</tr>
<tr>
<td>Real Estate Debt</td>
</tr>
<tr>
<td>Non-Real Estate Debt</td>
</tr>
</tbody>
</table>

(Farm Balance Sheets continued on page 14)
To simplify the calculations, the farm balance sheet has been broken up into seven categories, each with a defined duration value (see Table 1). Most assets and debt categories have relatively straightforward expected cash flows. The largest exception also happens to be the largest category, farm real estate. For demonstration purposes, this analysis treats farm real estate as a perpetuity that pays an annual yield of 6%, which is in line with USDA estimates (ERS, 2017). A perpetual average return of 6% implies a duration of 17 years.

Table 1 also lays out a hypothetical cash grain operation in the Midwest with moderate levels of leverage. The values in Table 1 are like those from the USDA’s 2016 Agricultural Resource Management Survey (ARMS) but with slightly more debt to better illustrate the effects of duration analysis. The hypothetical operation has very low levels of cash and animal inventory and has more of its assets in either crops in the bin or in the ground, as well as in machinery and land. Approximately 75% of this operation’s assets are in the value of farm real estate, a level that mimics the overall sector. On the other side of the balance sheet, the operation has a real estate loan with a 33% loan-to-value and an operating line that mirrors the value of crop for marketing. Weighting the durations by the balance sheet values, the assets have an average duration of 13.5 and the liabilities have an average duration of 7.1. Given the weight of assets and liabilities on the balance sheet, this leaves a duration gap of 11.0. The duration gap implies that a 100-basis point increase in underlying interest rates will decrease the value of equity by 11% of assets, resulting in a loss of roughly $215,000.

Table 2. Single Farm Operation Duration Example

<table>
<thead>
<tr>
<th>Balance Sheet Group</th>
<th>Initial Value</th>
<th>Value after 1% Rate Increase</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>1,500,000</td>
<td>1,665,947</td>
<td>(154,053)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>700,000</td>
<td>650,481</td>
<td>(49,519)</td>
</tr>
<tr>
<td>Equity</td>
<td>1,250,000</td>
<td>1,035,466</td>
<td>(214,534)</td>
</tr>
</tbody>
</table>

Baseline

| Assets              | 1,350,000     | 1,685,947                   | (284,053) |
| Liabilities         | 700,000       | 643,260                     | (56,731) |
| Equity              | 1,250,000     | 1,042,677                   | (207,323) |

More Stock, Debt to EW

| Assets              | 2,050,000     | 1,785,947                   | (264,053) |
| Liabilities         | 800,000       | 754,135                     | (55,865) |
| Equity              | 1,250,000     | 1,051,812                   | (198,188) |

Add $100,000 Debt in-Cash

Holding more short-term cash assets would allow the operation to add liquidity to the balance sheet and reduce the duration gap by shortening the average duration of assets and increasing the average duration of liabilities. In turn, the operation can protect nearly $20,000 of its equity from interest rate risk.

Importantly, in this example it is virtually impossible for this farm to fully immunize the balance sheet from interest rate risk due to the relatively high duration of farm real estate. Financial institutions often overlay off-balance sheet derivatives such as interest rate futures or swap contracts to tighten the duration gap (Bierwag and Fooladi, 2006). These complex financial instruments are often inaccessible to smaller farm operations, but they should be considered as a possible means of reducing interest rate risk. And while not all farm balance sheets can be fully immunized, any reduction in duration gap can protect equity from the tide of rising interest rates.

Farm Real Estate Widens Sector Duration Gap

Interest rate risk presents itself in the aggregate farm sector balance sheet as well. By grouping the balance sheet items published by the USDA Economic Research Service into the same classifications used in the previous example, the assumed asset classification durations can be used to calculate the sector’s duration gap over time. Given that farm real estate assets have typically made up more than 70% of all farm assets, the long-term nature of farm real estate dominates the sector’s asset duration calculation. Since 1960, the average duration of farm assets is 13.4. Of note, there are periods with a slightly higher farm asset duration in the early 1980s and 2000s, when farm real estate assets were 80% of the balance sheet or higher. Since 1960, farm liabilities have averaged a duration of roughly 5.7, with higher periods in the 1980s and 2000s when farmers used a greater mix of long-term real estate financing.

Figure 3 shows the calculated historical duration gap for the sector from 1960 through 2017. The gap has been gradually increasing as real estate has increased as a percentage of farm assets. Two periods stand out as opposing the slow drift: the boom and subsequent bust of the 1970s and 1980s and the years from 2008 to 2012, when high profit levels increased farm operators’ cash and short-term financial positions to record highs. In 2017, the farm balance sheet duration gap stands at 13.7; holding everything else constant, if rates rise by 1 percentage point, this analysis indicates farm equity would fall by $419 billion given the duration gap and initial $3 trillion asset base.
The duration-implied value of farm equity tracks the path of reported farm equity surprisingly well. The durations of all farm assets and liabilities are easily calculated from the values in Table 1. The implied change in equity from a given starting point is the duration gap multiplied by the level of change in interest rates. Using the annual difference between the 5-year moving average 10-year Constant Maturity Treasury rate as a proxy for yield curve shifts, rolling the implied value of farm assets and liabilities forward is a straightforward exercise. Figure 4 demonstrates the results of such an exercise, beginning with 1973 as a base year and letting farm equity float using only the duration gap and the change in interest rates from the prior year. The rapid rise in interest rates in the late 1970s implied a much deeper drop in farm equity than was experienced, but since 1990, the implied equity and reported equity have moved in near-lockstep. This relationship will be worth monitoring if the market yield curve continues to rise.

Coping with High Duration

Understanding the balance sheet impacts of interest rate movements is the first step toward preparing for them. The value of future cash flows is affected by the level of interest rates, and asset and liability values are both functions of the value of cash flows. Since farmers’ asset and liability values are both sensitive to interest rate changes, farm equity is also affected by interest rate fluctuations. The scenarios outlined in this article illustrate how the long duration of farm real estate can make it difficult for the farm sector to eliminate its duration gap. Accordingly, farmers’ equity is adversely exposed to rising interest rates.

However, farm real estate may not be as interest rate sensitive as its duration suggests. Real estate is a natural inflation hedge, and rate sensitivity varies inversely with inflation sensitivity (Leibowitz, 1992). If interest rates increase in response to rising inflation, farm real estate values may not fall but instead rise, as home prices did in the 1970s. Second, landowners facing a sizable duration gap can always choose to lease out portions of their land holdings to shorten the duration of their portfolios. Leases have fixed time horizons with regular repricing, which gives the cash flows associated with the asset the ability to float with the market and thus the sensitivity to changes in market conditions and interest rates is greatly reduced. Finally, today’s lending marketplace offers more widely available and longer-duration loan products than were available during the 1980s. In this article, farm real estate debt was modeled assuming a 15-year fixed rate and 25-year amortization, but farmers have access to 20, 25, and even 30-year loan maturities. A 30-year fixed-rate loan has an approximate duration of 17.7, more generally in line with the land itself. Access to longer-duration debt capital could help protect farm equity in the event of rapidly rising interest rates.

For More Information


Jackson Takach is Director of Economic and Financial Research for Farmer Mac. Farmer Mac is a vital part of the agricultural credit markets and was created to increase access to and reduce the cost of capital for the benefit of American agricultural and rural communities. For more information on CBI Affiliate Member Farmer Mac, visit www.farmermac.com.

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Bell Bank also provides long-term financing and lines of credits to bank holding companies. Funds can be used for acquisitions or mergers, shareholder buy outs and contingency plans, as well as resolving growing pains, legal lending limit issues and concentration risks. In addition, they assist bank ownership with Reg O and Bank Stock Loans.

A recent success story has to do with a Medical facility expansion project in Iowa that several banks in the county wanted to participate in, but due to the size of the credit, needed additional expertise and resources. This is a case where Bell Bank was able to not only provide some funding, but also aid in facilitating the much needed additional space and medical services, while helping Iowa community banks grow their loan portfolio.

Bell Bank’s Correspondent Department is unique in that its sole focus is specializing in credit services, unlike many correspondent banks who sell a variety of services and products. Their Correspondent Department has its own management team, credit officers and loan underwriters that work together to provide banks with fast decision-making, flexible underwriting, terms and competitive pricing on loans.

Community Bankers of Iowa and Bell Bank’s goals are similar; both desire to enhance community banks and bank holding companies competitiveness, growth and profitability. As a member of CBI, Bell Bank helps support achieving those goals through networking opportunities, education of Iowa citizens and bankers, as well as actively participating in the political process.

For more information on CBI Associate Member Bell Bank contact Mary Voss at 515-577-0070 or mvoss@bellbanks.com, or Gene Uher at 605-201-1864 or guher@bellbanks.com.

CBI thanks Bell Bank for its continued support!

For over 15 years, CBI Associate Member and 2018 Hall of Fame Sponsor Bell Bank has been in the correspondent lending business and has over $450 Million in loan assets as a direct result of commitment to service, timely decisions and satisfied community banking partners. The job of Bell Bank is to help community banks and bank holding companies compete in their market. One way Bell Bank does that is through Participation loans. They become a behind-the-scenes partner, giving banks the ability to serve their commercial customers without threatening the existing relationship. They do not sub-participate any part of a credit or cross-sell other bank services to the bank or its customer. Bell Bank is not a competitor – they are a business partner.

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CBI thanks Bell Bank for its continued support!

Welcome New CBI Member!

Community Bankers of Iowa would like to welcome the following organization to the association, and thank them for their support:

Main Street Inc.
Recognize Your Community Banking Peers
Nominate the Next Up & Coming Community Banker of the Year

Annually the Community Bankers of Iowa’s Leaders of Tomorrow (LOT) group recognizes one community banker whose performance and achievements in banking have earned the respect of his or her peers as the Up & Coming Community Banker of the Year. Now is the time to recognize and nominate an individual in your bank who exemplifies the best of the future of independent community banking! Nominees will be evaluated on their individual achievements in banking, bank performance, and community involvement.

Requirements for consideration include:
- Nominated individuals should exemplify the best in the future of independent community banking and be an integral part of their institution’s leadership plan;
- Nominees must work at a bank that is a member of the Community Bankers of Iowa;
- Nominees should be a member of the Leaders of Tomorrow program (but it is not a requirement).

The Up & Coming Banker of the Year is an honor that will be recognized at a ceremony at CBI’s 47th Management Conference and Annual Convention, July 18-20, 2018 in Okoboji, Iowa.

The honoree will be featured in an issue of CBI’s weekly e-newsletter CommonCENTS, and the August edition of the Community Banker Update.

Complete and return the nomination form by May 21, 2018, or make your nominations online. Forms can also be downloaded on the CBI website. Submit forms to the CBI office by Mail: 521 E. Locust St, Suite 202, Des Moines, IA 50309; by Fax at 515.453.1498; or by Email at cbia@cbiaonline.org. Contact 515-453-1495 with questions.

Submit nominations online, or download a Nomination Form at cbiaonline.org.

CBI Education Foundation
Consider Making an Investment in Iowa’s Future

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

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

Contributions of any size are accepted and encouraged. Various levels of recognition have been established to spotlight those who show enhanced support. Contributions made by both personal and corporate donors are tax deductible to the fullest extent of the law.

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

Would you like to make a tax deductible donation to help ensure the future of community banking in Iowa?

Click here for more information or to download the Brochure and Donation Form.
Anxious, humbled, excited. Those were the three words I used to describe how I was feeling as I became your new ICBA chairman at ICBA Community Banking LIVE in Las Vegas just a few short weeks ago.

I was anxious because of the tremendous sense of responsibility I feel to properly and effectively represent you; humbled because of the opportunity I’ve been given to help make a positive difference for an industry that I love; and excited about the opportunities we have to achieve meaningful regulatory relief and being part of the significant changes that are happening at ICBA.

As you know, we’re transitioning from Cam Fine’s leadership to Rebeca Romero Rainey’s leadership this month. Cam has led the transformation of ICBA into the most influential and respected financial services organization in the nation. I can’t thank him enough for his work on behalf of our great industry.

It’s a tough act to follow, but in Rebeca, we have found the perfect answer to that challenge. She is the right person with the right talent at the right time to lead us into the future.

I am very excited about the prospect of working with Rebeca, the executive committee, the incredible ICBA staff and, of course, all of you—my fellow community bankers—over the next year. You are all my ICBA family, and everything we do will be a genuine team effort!

That’s why, for my speech in Las Vegas, I chose the classic children’s story The Little Red Hen to illustrate how we will continue to accomplish great things for community banking over the next year.

Think about it: If ICBA and community bankers around the nation were not fighting to lessen the burden that crushing over-regulation has on our industry sector, would the U.S. Congress be close to passing bipartisan community bank regulatory relief? If we had not been vocal at FASB’s headquarters in Norwalk, Conn., do you think community banks would have gotten any meaningful changes to CECL? If we had not pushed so hard, would ICBA community bankers have been invited to the White House twice last year to discuss regulatory relief? The answer to all these questions is a resounding “No.”

 Because we all did our fair share and helped throughout the growing season, all of the seeds that we sowed eventually became a delicious loaf of bread that we could all enjoy. Thank you all for saying, “I will” instead of “not I.”

That’s why we have to keep the momentum going, and it’s why I’m asking all community bankers to not only keep up their personal advocacy but also to identify a community banker who is not currently involved and show them how they can help. Show them ICBA’s vast grassroots advocacy and communications resources, and, most importantly, show them why nobody else can do it for them.

Our industry’s future holds so much promise, but it is up to us to plant those seeds now. Our customers, our communities and our nation will thank us.

 I look forward to working with you over the next year to make great things happen for our industry!

New ICBA Chairman Timothy Zimmerman is CEO of Standard Bank in Monroeville, PA.
Ever month for nearly 15 years, I have shared my thoughts with you on the top issues of the day in my monthly column. With this column, I pen my last message to you. It boggles my mind that 15 years have passed since my first monthly message, but here we are. Such a different world today than then. But community banking remains and is in many ways stronger today than it was when I arrived at ICBA in May 2003.

I could write a thesis on the myriad ways the world has changed over the past decade and a half. In my view, one word best captures our changed world: technology! Technology has affected every facet of our lives for both good and ill. And it will continue to impact our lives, our culture and society in ways we cannot even imagine today.

Whether those changes will work for the better or worse depends on how we relate and adapt to them. If community banking can adapt and assimilate to the ever-changing technological landscape, community banks and banking will flourish. And I believe community banks can and will adapt, because the greatest strength of community banks is their ability to evolve.

Community banks have been adapting to their changing environments for more than two centuries, and they will continue to do so. That is what makes our nation’s community banks unique. And it is what makes representing community banks so much fun and such an honor. No other nation on earth has a community banking system like that of the United States. It is our nation’s secret economic weapon. It is what has separated the U.S. economic system from all other nations and made ours the greatest economic force on earth. Community banks are the engines that create jobs, enable small communities and the rural countryside to thrive, and help entrepreneurs to get their start. Some of the greatest companies in the United States got their start from a community bank.

And our community banking system has held to its principles while at the same time adapting to its environment. That is why we continue to survive and thrive. Relationship banking, adaptability and a willingness to take chances are the hallmarks of community banks. These qualities will serve the community banking industry well as our financial world continues to evolve in the years ahead.

I leave ICBA in the hands of my very able successor and the most outstanding staff in the association world. It has been the greatest honor of my life to represent and advocate for our nation’s community banks. I will never be able to adequately thank all the thousands of community bankers who have helped and encouraged me over the years. Just know that I will always be grateful to you and hold a special place for you in my heart. You are the greatest men and women in America. And always know that it is you who make all of this work.

Thank you from the bottom of my heart. I wish all of you well and great success.

Following Mr. Fine
More than 1,000 people are following Camden Fine’s tweets @Cam_Fine— are you? Visit www.twitter.com/cam_fine.
Sure, when it comes to loans, interest rate consistently ranks among the most important factors that influence consumers when choosing a lender. But when viewed collectively, features that contribute to the overall loan experience, such as speed, transparency, channels, and service, actually outweigh interest rates. So, what types of experiences are today’s consumers looking for?

What do Millennials, Gen Xers, and Baby Boomers want from a loan?

When it comes to Millennials, providing a great experience should be your top priority. They can book vacations from their phones, or have their groceries delivered to their door. So, it’s no surprise that Millennials are unsatisfied with the traditional loan application process. And Gen Xers aren’t much different. They want a great experience online and in-branch. However, they do value rates more than Millennials, so show them you have competitive interest rates. For Baby Boomers, interest rates are still king, but that doesn’t mean they don’t care about the experience. This group will still take the time to research and submit documents online, but like Gen Xers, they prefer a good in-branch experience when closing loans.

What makes a great loan experience?

Lending needs to be reinvented. All three generations want more from the traditional loan process that has existed for years. To stand out in and compete on more than rate alone, give consumers the three things they want most from a new loan: transparency, control, and flexibility.

Transparency

Today’s borrowers want a better understanding of their loan and how their payments affect the loan’s terms. What happens if they pay a little extra each month? What happens if they get a bonus at work and want to make one big payment? To give borrowers more transparency, provide dashboards that make it easy for them to manage their loan and know exactly where they stand.

Control

They also want more control. Give them this by providing a seamless way for them to see the impact of payment changes before they make them providing them with more control and enabling them to make better financial decisions.

Footnote: 1 PwC
Last week, I fired up an app on my phone and while using it, a message popped up. Nordstrom was having a sale on Ted Baker suits, I was intrigued … and they knew I would be because they know what I like. This is the new norm for businesses today, data is changing the world and helping businesses target consumers and businesses in new and unique ways. There was a time when companies, would have had to spend insane amounts of money to find me and get this message in front of me, but today, teamed with advanced analytics and enhanced modeling, companies use data (in the form of marketing signals) to anticipate and predict consumers’ needs.

What are marketing signals, exactly? They’re an indication of intent or behavior based on a person’s actions. If someone searches for mortgage rates online, he may be in the market for a mortgage. If she clicks on an ad, that means she’s interested in that product. But there are other things, too, like life events that indicate shifting financial sands (a child going off to college or having a baby). Knowing about it gives you a chance to meet those changing financial needs. Even passive things like the balance in a person’s savings account or debt that needs consolidating are powerful indicators. A consumer might not know that a CD would make their savings work harder for them, or that they can qualify for a debt-consolidation loan and pay down their debt quicker and with less interest.

The insights gained through monitoring these marketing signals are the key to anticipating a consumer’s needs, even educating them about those needs, allowing you to swoop in with an offer before a purchase is made.

But it’s not just about being in the right place at the right time. Tapping into the active and passive signals allows you to build responsive, intuitive, consumer-centric marketing programs. It gives you insights into consumer expectations, allows you to offer personalized service, and helps you to retain your current customer base while gaining new ones.

Let’s dive deeper into marketing signals. Here are the three main types of lending signals potential finance customers give out.

1. Behavior-based
   These are concrete actions consumers take that indicate they’re ready to purchase a new financial product. Online searches are one of the most powerful signals. Searching for a Realtor? Chances are you’re in the market for a mortgage. Hard credit inquiries? A credit hit means a consumer is considering a purchase, like a new car or a home. Pick up on that signal and boom, you’ve identified a potential customer for a mortgage or a car loan. Another example: A change of address can indicate needs for lines of credit or refinancing.

2. Event-based
   A child heading off to college, the birth of a baby, an adjustable mortgage rate resetting or an auto lease expiring are signals that the consumer is about to experience a financial shift that will produce new financial needs like a college loan or a car loan.

3. Predictive
   This is the profile your data alone builds for you. Predictive signals are more passive than behavior- or event-based signals, but if a person has a high amount of savings sitting in their account, debt that could be consolidated or a mortgage with a much higher interest rate than the going rate, they might be a good candidate for a consolidation loan, the purchase of a CD or a mortgage re-fi.

Oftentimes, you can use a combination of all three of these types of signals to get at an opportunity. Here’s how it might look:

Developing a strategy
It all sounds good, but how, exactly, do you capture all of this data floating around in cyberspace? It may sound overwhelmingly high tech, but the good news is, you don’t have to go big or go home — or even go it alone.

The first order of business? Start small. That’s the best way to implement new strategies. Float a marketing signals trial balloon and see what kind of ROI you get from it. Pick a product you’d like to focus on — mortgages, say. Do a trial using inquiries from credit bureaus and other predictive data to identify mortgage shoppers who match your qualifying criteria. Just pay per consumer record with no commitment or contract. See the kinds of results you get. The ROI from these data-driven marketing tactics will blow the doors off traditional marketing programs.

Hallie Williams is Director of Product Management for Deluxe Financial. For more information on CBI Endorsed Member Deluxe, visit www.deluxe.com.
In previous articles in the C&I series, we looked at the commercial lending trend that’s created a huge opportunity cost for community banks. But the effect is more than just financial. It is undermining the very spirit of community banks, which are now losing prime opportunities to fintech, nonbank lenders, and regional and national banks.

Let’s take a look.

The bread-and-butter of community banks, where they’ve traditionally maintained an advantage over larger banks, is relationship lending. But, as community banks have trended away from commercial and industrial (C&I) loans during the last 30 years, they have gradually eroded a keystone of relationship lending opportunities in favor of commercial real estate (CRE).

In 1984, the number of community banks the FDIC considered CRE specialists represented just 2% of all banks. By 2011, that number had jumped to 24%.

During the same time period, the number of banks considered C&I specialists declined significantly, from 11% of all community banks down to 2%.

As a result, businesses in the C&I space have gravitated to fintech, nonbank lenders, regional banks and national banks for their credit needs. This poses problems in two key areas:

1) Businesses in rural areas
2) Businesses that need to borrow between $1-10 million.

Even despite the large growth of regional and national banks with the relaxation of government restrictions on branching, rural businesses are still less likely to find a regional or national bank branch in their county. The FDIC’s 2012 comprehensive study of the community banking industry found that community banks still retain the only banking presence in nearly 20% of all U.S. counties.

Fintech and nonbank lenders can get businesses the credit they need quickly, but it often comes with higher fees. They also can’t meet the full spectrum of financial needs, which can include checking accounts, credit card processing, cash management services and insurance.

For those businesses that do become regional or national bank customers, those that need between $1-10 million in credit may find extra challenges. Many large banks feel more comfortable lending to established businesses for which they can find audited accounting information, credit reports, and other “hard” information. It’s difficult for them to replicate the relationship lending practices of community banks, where lenders can rely on “soft” information, like their own knowledge of the business, its products, the owners, employees, their reputations and the local market conditions to increase comfort levels.

These C&I businesses value a relationship with a bank that understands their business and needs. That banking relationship may continue as the business grows, adds new locations or begins exporting. The owners and employees often turn to that bank for their personal credit needs.

CRE lending tends to be driven by price. Borrowers are looking for the best rate, and may have multiple relationships with different community banks in order to shop for the lowest rate. The mentality is more transactional than relationship-oriented.

Community banks that have long-favored CRE loans may have lost some expertise in the C&I space. Now, even if they want to engage in more C&I lending, this lack of experience makes them more uncomfortable with extending credit. But that can change – even as soon as today.

Vital Financial Services are experts in underwriting, closing and servicing SBA and USDA loans. VITAL has worked with lenders across the Midwest through all phases of government guaranteed lending. Community banks draw on their expertise to improve every aspect of CAMELS ratings, while achieving their goals of serving the local business community. For more information on CBI Affiliate Member Vital Financial, visit www.vitalfs.com.
The Independent Community Bankers of America is the only national organization that exclusively represents the interests of community banks. With effective advocacy, best-in-class education, and quality products and services, helping your community bank reach its full potential is our passion.
Faster payments have arrived—Zelle is active, The Clearing House’s Real-Time Payments launched in November 2017, and MasterCard and VISA each have products to deliver faster payments. And, other solution providers are developing products to make for an even more competitive market for the next generation of payments.

With this knowledge in mind, community banks across the country now face the challenge of determining a path forward in a technology marketplace crowded with several choices. But which path is the correct path? Which faster payment solution(s) will lead to successful, widespread adoption, accountholder retention, and increased revenues? All these questions have banks screaming, what IS the right choice!?

The process to select faster payment solution(s) is the most daunting task for banks since the introduction of online banking in late 1990s. Online banking was a radical change that threatened traditional ways of banking that relied on brick-and-mortar branches filled with trusted veteran bankers and tellers eager to help with withdrawals. Advocates of new technology were pushing reluctant community banks to embrace the vision of a future in which people could quickly access their accounts anywhere, anytime, and with the simple click of a button. Decision-makers faced a marketplace filled with website developers and core providers offering a variety of platforms, each with their own pros and cons.

The risks of investing in online solutions were great—what if accountholders did not use them? What if all the talk of the dot-com revolution just ended as passing fad? Which choice of online banking platform or services would lead to success? And yet, slowly but surely, leaders of community banks took the leap into the Internet Age. Now, consumers and business take online banking and mobile payments for granted.

As the payments industry pushes forward into the future of faster payments, community banks should recall their experience with online banking and the lessons they learned from making those pivotal choices. Community banks should also draw inspiration from their previous experiences that have already demonstrated an ability to thrive in a transformative 21st century!

No one person can tell you which choice of faster payments will be the right choice. The right choice is always the one each bank makes after considering the costs and benefits of available solutions, working with their boards to determine a viable payments strategy, creating achievable and measurable goals, and completing a thorough implementation plan. But, Regional Payments Associations like EPCOR can give financial institutions the knowledge to navigate the uncertain waters of faster payments and empower them to engage in a thoughtful evaluation of faster payment solutions.

The future of faster payments is at hand and the choice to participate is yours—which choice will you make?

The Choice Is Yours

By: Brian Laverdure, AAP
Director, Emerging Payments Education
EPCOR

EPCOR Affiliate Member EPCOR provides electronic payments and risk management information, education, support and national industry representation to assist U.S. financial institutions in maintaining compliance, reducing risk and enhancing the overall operational efficiency of electronic payments. For more, visit epcor.org.
Digital Lending: The $30B Frontier

By: Brent McKown, Product Manager
Computer Services Inc.

Digital lending, or the process of applying for a loan online or on a mobile device, is the next major growth opportunity for all financial institutions. In fact, digital lending is anticipated to blossom into a $30 billion industry by 2025.

The largest financial institutions in the country are already taking notice of this growing income opportunity. The question becomes, then, how can community banks capitalize on the emergence of digital lending? The answer lies in understanding the nature of digital lending and its cost-effective, affordable and efficient nature.

The Need for Lending Speed

Traditional loans vary in size and complexity. However, they all share one grueling characteristic: it takes an exorbitant amount of time to complete the applications. This has proven to be a costly hindrance for both the applicant and the issuing lender.

In today’s digitally driven society, every moment of time is precious. In addition, for many consumers—especially small-business owners who need quick access to cash—a physical trip to the bank is often a luxury they cannot afford. Add the extensive in-person paperwork and underwriting resources to the mix, and the outdated nature of these “legacy loans” becomes truly apparent.

Loans Processed in an Instant

Digital lending condenses the application and underwriting process into an almost instant digital event, made possible through automation.

Through the power of automation, the process of applying for a loan is drastically simplified; all the applicant needs is a smartphone or other internet-enabled device. From it, he fills out the necessary information normally found on any physical loan paperwork, and e-signs the required documents. Almost instantly, he receives a notification stating the amount he is able to borrow.

The underwriting process also is automated, saving the lender countless hours. In years past, community banks could not afford to issue small loans due to the excessive time these loans spent in the underwriting phase, in spite of the fact that these loans were in plentiful supply. According to a Harvard Business School report, 60 percent of small businesses in the United States today need financing of $100,000 or less.

Further, according to FDIC data, community banks provide more than half of all small-business loans, but only about one-seventh of those loans are less than $100,000; and service to these smaller loans has diminished in recent years. In fact, community banks provided more loans under $100k to small businesses in 2006 than in 2016. Small loans have simply not been profitable to process, and thus have remained largely out of reach for community banks.

With the aid of digital lending, however, the underwriting process is completed through an algorithm, which reduces the time underwriters spend servicing smaller loans. Therefore, with the near instantaneous nature of automated underwriting, overall costs are reduced significantly, allowing community banks to again tap into this market and reap the benefits therein.

There Are Compliance Benefits, Too

From a compliance standpoint, digital lending solutions allow regulatory documentation to be stored in an easily accessible format. This is beneficial from an operational standpoint as well, because it alleviates the need for employees to complete manual searches of documentation, which can be a time-consuming affair. It also reduces the risk of human error pertaining to searching and storing compliance documentation.

Digital lending platforms also provide a transparent (and completely digital) audit trail—an enormous value when regulators require information promptly.

Get Digital

Technology such as digital lending is the foundation of the future for American banks. In one of its last white papers to the American public, the Obama Administration stated that fintech innovations like digital lending have the potential to “promote financial inclusion, expand access to capital for individuals and small businesses, and more broadly reshape how society interacts with financial services.”

For many community banks, digital lending might appear unattainable—a pie-in-the-sky fantasy. But that’s not the case, since it’s becoming more accessible and affordable for financial institutions of all sizes. And digital lending isn’t just another innovative enhancement; it serves as the bridge that connects community banks to small-business owners and other customers seeking smaller loans. So, with the demand for online lending on the rise, institutions that implement digital lending will take a bigger slice of the pie.

Brent McKown is a product manager with Computer Services Inc (CSI), a role in which he is responsible for managing enhancements and providing new product direction based on market trends. He also oversees multiple strategic vendor relationships. Brent has prior experience in retail business banking and commercial lending. For more information on CBI Affiliate Member Computer Services Inc., visit csiweb.com.
February 2018 Survey Results at a Glance:

- The overall index from February’s survey bounced above growth neutral to its highest reading since May 2014.
- Almost two-thirds of bank CEOs expect farm equipment sales to trend lower for 2018.
- On average bankers expect farm equipment sales to decline by 7 percent in 2018.
- One-third of bankers reported no change in their farm lending practices over the past year, while 45.2 percent indicated that their bank had raised collateral requirements for farm loans.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index sprang higher in February from January’s below growth neutral reading. This is the first time since July 2015 the overall index has advanced above growth neutral, according to the latest monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The overall index soared to 54.8 from 46.8 in January, the highest reading for the overall index since May 2014. The index ranges between 0 and 100 with 50.0 representing growth neutral.

“Given that fewer than one in four, or 23.9 percent, of bankers reported economic growth in their area, the solid February reading surprised me. However, weak agriculture commodity prices continue to weigh on the rural economy,” said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University’s Heider College of Business.

Jim Eckert, president of Anchor State Bank in Anchor, Illinois, reported, “We are seeing farmers with somewhat reduced income and moderate operating loan carryovers. However, without rain prior to planting, 2018 could be a bad year.”

Farming and Ranching: The farmland and ranchland-price index for February rose to 46.3 from 42.2 for January. This is the highest reading since July 2014, but it is the 51st straight month the index has fallen below growth neutral 50.0.

The February farm equipment-sales index jumped to 33.8 from January’s very weak 24.4. This marks the 54th consecutive month the reading has remained below growth neutral, 50.0.

Almost two-thirds, or 63.5 percent of bankers, project that agriculture equipment sales will decline further in 2018. Only 4.9 percent of bank CEOs expect farm equipment sales to expand in 2018. Even so, these projections are an improvement from February 2017, when 73.9 percent of bank CEOs expected a slump in farm equipment sales for the year, and 4.3 percent anticipated an increase in equipment sales. On average a decline of seven percent is expected for 2018.

March 2018 Survey Results at a Glance:

- For a second straight month the overall index rose above growth neutral.
- Approximately 16.8 percent of grain farmers are expected to suffer negative cash flow for 2018. This is down slightly from 12 months earlier.
- The percent of farmland purchases for cash (not financed) declined from 23 percent to 20 percent over the past 12 months according to bankers.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index slipped in March, but remained above growth neutral for a second straight month, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. This is the first time since the middle of 2015 that we have recorded two straight months of overall indices above growth neutral.

Overall: The overall index dipped slightly to a solid 54.7 from 54.8 in February. The index ranges between 0 and 100 with 50.0 representing growth neutral.

“Surveys over the past several months indicate that the Rural Mainstreet economy is trending upward with improving, but slow economic growth. However, weak agriculture commodity prices continue to weigh on the rural economy,” said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University’s Heider College of Business.

Jim Eckert, president of Anchor State Bank in Anchor, Illinois, reported, “Recent commodity price increases have helped the mood of our farmers. Our area is somewhat dry and good spring rains will be essential for a good 2018 crop.”

Farming and Ranching: The farmland and ranchland-price index for March dropped to 42.7 from February’s 46.3. This is the 52nd straight month the index has fallen below growth neutral 50.0.

The percent of farmland purchases for cash (not financed) declined from 23 percent to 20 percent over the past 12 months according to bankers.

The February farm equipment-sales index jumped to 37.2 from February’s 33.8. This marks the 55th consecutive month the overall index has fallen below growth neutral 50.0.

Bankers project that 16.8 percent of grain farmers in the region will experience negative cash flow for 2018. This is down slightly from 12 months earlier when bank CEOs estimated that 17.0 percent of grain farmers would suffer from cash costs exceeding case revenues.

According to Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Illinois, “Many borrowers in the Ag sector continue to erode working cash with negative cash flow projections.”
Tables 1-3 summarize survey findings (click each table to view larger):

### Table 1: Rural Mainstreet Economy February/March 2018: One Year Ago and Last Two Months (index > 50 indicates expansion)

<table>
<thead>
<tr>
<th>Area economic index</th>
<th>February 2017</th>
<th>March 2017</th>
<th>January 2018</th>
<th>February 2018</th>
<th>March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45.8</td>
<td>45.3</td>
<td>46.8</td>
<td>54.8</td>
<td>54.7</td>
</tr>
<tr>
<td>Loan volume</td>
<td>50.1</td>
<td>58.4</td>
<td>54.4</td>
<td>53.8</td>
<td>56.9</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>68.1</td>
<td>56.0</td>
<td>57.8</td>
<td>48.8</td>
<td>58.0</td>
</tr>
<tr>
<td>Certificates of deposit and savings instruments</td>
<td>46.8</td>
<td>47.6</td>
<td>43.5</td>
<td>45.2</td>
<td>50.0</td>
</tr>
<tr>
<td>Farmland prices</td>
<td>33.7</td>
<td>33.0</td>
<td>42.2</td>
<td>46.3</td>
<td>42.7</td>
</tr>
<tr>
<td>Farm equipment sales</td>
<td>20.5</td>
<td>22.0</td>
<td>24.4</td>
<td>33.8</td>
<td>37.2</td>
</tr>
<tr>
<td>Home sales</td>
<td>57.8</td>
<td>56.2</td>
<td>51.2</td>
<td>52.4</td>
<td>52.3</td>
</tr>
<tr>
<td>Hiring</td>
<td>54.3</td>
<td>59.6</td>
<td>50.0</td>
<td>58.8</td>
<td>58.1</td>
</tr>
<tr>
<td>Retail business</td>
<td>45.8</td>
<td>41.5</td>
<td>43.5</td>
<td>47.6</td>
<td>48.9</td>
</tr>
<tr>
<td>Confidence index (area economy six months out)</td>
<td>45.7</td>
<td>47.5</td>
<td>46.7</td>
<td>52.4</td>
<td>58.0</td>
</tr>
</tbody>
</table>

### Table 2: Rural Mainstreet Economy February 2018

<table>
<thead>
<tr>
<th>How would you describe the economy in your area?</th>
<th>Recession</th>
<th>Modest Downturn</th>
<th>No Growth</th>
<th>Modest Upturn</th>
<th>Strong Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.4%</td>
<td>38.1%</td>
<td>35.6%</td>
<td>19.1%</td>
<td>4.8%</td>
<td></td>
</tr>
<tr>
<td>Greater than 15% decline</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1% - 5% reduction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1% to 5% increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater than 15% increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In terms of agriculture equipment sales for dealers in your area for the next year, what do you expect?</th>
<th>Little or no change</th>
<th>Increased collateral</th>
<th>Reduced average farm loan size</th>
<th>Increased interest rates</th>
<th>Increased Loan rejections</th>
</tr>
</thead>
<tbody>
<tr>
<td>22.0%</td>
<td>41.5%</td>
<td>41.6%</td>
<td>4.9%</td>
<td>0.0%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Which of the following has been your bank’s response to weak farm income?</th>
<th>Little or no change</th>
<th>Increased collateral</th>
<th>Reduced average farm loan size</th>
<th>Increased interest rates</th>
<th>Increased Loan rejections</th>
</tr>
</thead>
<tbody>
<tr>
<td>33.3%</td>
<td>45.2%</td>
<td>11.9%</td>
<td>40.5%</td>
<td>21.4%</td>
<td></td>
</tr>
</tbody>
</table>

### Table 3: Rural Mainstreet Economy March 2018

<table>
<thead>
<tr>
<th>What has been the overall economic impact of Dodd-Frank on your bank’s ability to meet area borrower’s needs?</th>
<th>Improved</th>
<th>No impact</th>
<th>Reduced</th>
<th>Significantly reduced</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3%</td>
<td>25.0%</td>
<td>56.8%</td>
<td>15.9%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Less than 10%</td>
<td>10% - 19%</td>
<td>20% - 32%</td>
<td>33% - 50%</td>
<td>51% - 75%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What percent of recent farm land purchases in your area do you estimate are cash sales (not financed)?</th>
<th>27.3%</th>
<th>25.0%</th>
<th>34.1%</th>
<th>11.4%</th>
<th>2.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1% - 4%</td>
<td>5% - 14%</td>
<td>15% - 24%</td>
<td>25% - 29%</td>
<td>Over 29%</td>
<td></td>
</tr>
</tbody>
</table>

| What percentage of grain farmers in your area are projecting negative cash flow for 2018? | 15.9% | 27.2% | 27.3% | 20.5% | 9.1% |

For historical data and forecasts, visit: www.creighton.edu/economicoutlook. Follow Ernie Goss on Twitter www.twitter.com/erniegoss
Bank Iowa has announced two new hires to their team: Mitchell Kay and Dave Chiles.

Mitchell Kay has been appointed to the position of loan officer, vice president. Kay most recently served as commercial lender, assistant vice president, for American National Bank in Omaha, Nebraska.

“Mitchell has a proven track record of developing strong business banking relationships,” said John McBride, Bank Iowa regional president. “His experience with commercial, small business, agricultural and construction lending will be a great asset to the businesses and individuals who rely on Bank Iowa to put financial advice in the context of market pressures, economic trends and industry forecasts.”

For Bank Iowa, Mitchell will identify and serve the Shenandoah and surrounding communities’ financial needs through loan counseling, seminars and sales meetings, and by participating in the bank’s community activities. He will also work with a wide range of clients, including agriculture, commercial, mortgage and consumer, to identify their financial goals and develop plans for achieving them.

Dave Chiles has been appointed to the position of mortgage loan officer. Chiles brings to the bank more than 25 years of financial services experience in the Pella community.

“Dave has a wealth of knowledge in the financial services industry and extensive experience building strong business and consumer banking relationships,” said Jim Plagge, Bank Iowa president and CEO. “He will be a great asset to our new full-service office launching in Pella this year, as well as to the individuals and businesses that rely on Bank Iowa to help make their financial dreams a reality.”

As a mortgage loan officer, Chiles is responsible for originating first mortgage loans and developing new mortgage business. He will build relationships with investors, homebuilders, real estate professionals, market representatives and other business development contacts to meet lending needs throughout the Pella community.

With more than $1.3 billion in assets, Bank Iowa ranks as one of the leading independent ag banks and the second-largest family owned bank in the state. Farmers, families and businesses access Bank Iowa’s products and services through 25 locations in 22 communities, as well as online and on mobile devices. To learn more, visit bankiowa.bank.
EO Johnson welcomes OEI’s service and administrative employees and the Duluth sales employee to its Imaging division. Cornerstone Technologies support, engineering, and administrative employees join Locknet® Managed IT Services, EO Johnson’s IT division.

The sale fits both companies’ strategic plans. According to Bob Lamovec and Seth Sierk, Co-owners – OEI will now focus energies on their core businesses of mailing equipment, furniture solutions, water systems, digital media, and other upcoming endeavors. Mary Jo Johnson, CEO/Owner – EO Johnson Business Technologies, says the acquisition of O EI’s copier/printer division aligns perfectly with EO Johnson’s own imaging business. Likewise, both Cornerstone’s customer base and product offerings line up perfectly with Locknet’s client base and product focus.

About EO Johnson Business Technologies: EO Johnson Business Technologies is a leading business technologies provider, offering managed IT services, managed print services, document management, scanning and business processes systems, and print/document and production printing equipment. For more information visit eojohnson.com.

About Locknet Managed IT Services: Locknet Managed IT Services is a UCS/SOC2 Type 2, FFIEC examined technology service provider and has been named to MSPmentor’s 501 Global Edition since 2014. Focusing on IT security for over 35 years, Locknet provides delivery and management of IT network services including desktop and server, security, backup services, and more. For more information visit eojohnson.com/locknet.

About O EI: Office Enterprises, Inc. (OEI) has been committed to providing the best products and service for their customer applications since 1983. O EI is recognized as an established provider of mail and business furniture systems. As a second generation business, they have continued to experience growth through increased customer relationships and an expanding regional coverage. For more, visit theoeigroup.com.
To find out more information and to register for this event visit

www.icba.org/summit18