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UPCOMING WEBINARS

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Click for 2019 Schedule

2019 CBI Event Schedule
Not an exhaustive list of all live events; dates are subject to change.

May 30
• CBI Ag Conference

July 17-19
• CBI 48th Annual Convention

August 1
• LOT Business Meeting (Location TBD)

September 9
• CBI 12th Annual Golf Tournament

October 17
• LOT Business Meeting (Location TBD)

November/December
• CBI Community Banker Legislative Tour (dates and locations TBD)
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Support the Future of Community Banking in Iowa

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 April 29, 2019. Or, apply online at cbiaonline.org.

For more information, call CBI at 515.453.1495 or email Krissy Lee at klee@cbiaonline.org.

Nominate a Graduating High School Senior for the LOT Scholarship Program

Want to let others know about the LOT Scholarship Program? Display this poster in your bank!

Download it at cbiaonline.org - find it under Programs> Leaders of Tomorrow> Scholarship Program.

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 48th Management Conference and Annual Convention, July 17-19, 2019 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 klee@cbiaonline.org. Contact 515-453-1495 with questions.

Submit nominations online, or download a Nomination Form at cbiaonline.org.
Join Us for an Ag Conference on May 30

CBI will hold an Ag Conference May 30 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.

Appearing at this event will be guest speaker Mike Naig with the Iowa Department of Agriculture and Land Stewardship, and Peoples Company’s Dave Muth will be on hand to discuss current land values. Keynote speakers include special guest Coach Bill Fennelly, Iowa State University’s Women’s Basketball coach and Jackson Takach, Economist with Farmer Mac who will educate conference attendees on current issues in Ag Finance.

Afternoon sessions include an ag economy update by Steve Johnson, Farm Management Specialist at Iowa State University (ISU), a discussion by Elwynn Taylor, ISU Climatologist, and a presentation by Courtney Cowley from the Federal Reserve.

Registration for this event will open soon. For more information contact us at cbia@cbiaonline.org or 515-453-1495, or visit our website.

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ENTER CBI’S 2019 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 2019 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 10, 2019.

The winning bank will be announced and honored at the Kickoff Reception during our 48th 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 10!

Are you staying current on community banking news?
Get Some CommonCents

CommonCents is a weekly e-newsletter that keeps you informed of current organization activities and community banking news, delivered to your email inbox every Friday.

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If you would like to submit news and events from your bank for inclusion in the weekly e-newsletter, please contact Krissy Lee at klee@cbiaonline.org.
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

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The seventh year of the agricultural economic reset is both financially and emotionally stressful for many agriculture producers and lenders. Some producers are in their third restructure or refinance of operating losses on term debt. Contrasted to the 1980s farm crisis, the resilience of farmland values provides options when cash flow and profits are in the red. Other producers have utilized nontraditional sources of credit for operating needs with the strategy of using traditional lenders as a refinance option when negative financial situations occur.

A recent distressed credit workshop provided a vantage point in working with customers who are facing realities of the times. These three panelists, with over a century of combined agriculture lending experience dating back to the 1980s, provided nuggets for individuals that are on the front lines working through problem credits.

**Bridge versus pier concept**
One of the panelists brought up the “bridge versus pier” concept. Succinctly stated, farmland that has maintained its value in the downturn acts as a good bridge through the down economic cycle. He was quick to state that financial improvement must occur to reduce losses. A producer who continues to employ the strategy of refinancing losses to term debt is analogous to moving out to the end of the pier where it gets narrower and the water becomes deeper. As debt service mounts, the business’ ability to service the debt is reduced. The bottom line is the owner is financially “drowning” as a result of heavy debt service commitments.

In this part of the economic cycle, often preservation of wealth is the priority instead of options for a workout. This is particularly true when farm assets are the only option in a retirement program. This crucial conversation concerning the core equity burn rate, which is often made up primarily of land, must be laid out and discussed.

**Communication**
Next, the panel discussion shifted toward communication and interaction with customers in stressed credit situations. All three panelists indicated that taking time to develop a call plan before meeting with the customer is imperative.

In this call plan it is very important to outline key points and needs to be focused on in the meeting. Often stressed credit situations can become very emotional, which causes both the lender and producer to lose focus. Five to seven key questions need to be written down on the call plan to ensure goals are accomplished for the meeting.

A written agenda, preferably delivered ahead of time, can be a useful tool in maintaining focus during the meeting. This allows the borrower time to assemble documents that may be useful in the discussion. The goals of the meeting should be included in this communication.

Within 24 hours of completing the meeting, it is critical to develop a call report including the highlights of the meeting. This is very important, especially if a series of meetings occur.

*Acknowledgments: The views expressed herein are those of the author and do not necessarily reflect the views of Farmer Mac.*
over a period of time, say over 90 days. In this report, include details about who was in attendance and whether a third party, such as an attorney or facilitator, is involved. Summarize what was agreed upon along with the next action steps for both the borrower and lender. In my experience based upon interaction and facilitation in the 1980s, these call reports and actions can build momentum for the next meeting. The call reports outline what was accomplished and what areas of focus need to occur in the next meeting.

**Joint calling**
Some lenders may use a strategy of joint calls, which can be very effective especially if there are multiple parties, spouses, and others involved in the meeting. In this situation, it is imperative to develop a call plan and have pre-meeting discussions outlining each lender’s role. Often one will ask questions while the other will observe nonverbal communication or body language and take notes. Others find it useful if one individual’s role is to develop clarity and transparency of crucial conversations in the current stressed credit situation. It is important to summarize conversations in writing for the file to establish institutional memory.

One panelist indicated that joint calling was very helpful when one of the lenders involved in the stressed credit situation moved to a different position at the bank. This file and the other lender’s memory acted as a bridge when the new lender was assigned workout customers.

**Dealing with the customer that will not engage**
If you have been in lending long enough, you will likely have a situation in which a customer goes silent. They do not return phone calls, text messages, or emails and they avoid interaction. This may require help from someone else, such as an attorney, accountant, or another person with expertise, to bridge the gap and open communication. If one does break the communication barrier, then focus on some positive actions that can be a possible solution. One must be candid in the discussion without overwhelming the borrower with negative points and actions that could be a real detriment to the situation.

One final suggestion is to make sure spouses and all partners are attending the meetings to keep everyone on the same page. This reduces “he said or she said” comments or playing one person against the other.

These are a few summary points that are very critical to being engaged in an environment with stressed credits. Upcoming articles will elaborate further on this topic. As a final recommendation, remember that a borrower’s self-worth should not be dictated by their net worth. Separating the “person” from their stressful circumstances can help keep the tone of the communication positive.

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Dr. Kohl is Professor Emeritus of Agricultural Finance and Small Business Management and Entrepreneurship in the Department of Agricultural and Applied Economics at Virginia Polytechnic Institute and State University. He writes the “Dave’s GPS” blog for CBI Affiliate Farmer Mac. For more information visit www.farmermac.com.
Vendor Management Considerations for Flood Insurance Requirements

Reprinted from FedLinks Newsletter January 2019

Overview
Violations of the flood insurance provisions of Regulation H are among the most common compliance violations cited during Federal Reserve examinations. Banks are responsible for complying with the flood insurance provisions of Regulation H, but they often outsource essential functions of flood insurance responsibilities because of the complex regulatory requirements. Vendors can provide a cost-effective way for banks to utilize a third party’s knowledge and expertise. However, banks should understand the legal, operational, and reputational risks associated with these relationships because banks are ultimately responsible for complying with applicable laws and regulations. It is, therefore, important for banks to carefully manage their third-party vendors.

Purpose
This bulletin discusses specific provisions of federal flood insurance requirements affecting loan origination and servicing as well as the potential risks vendors pose in these areas and sound practices to mitigate these risks. Specifically, this bulletin reviews requirements, for commercial loans, that the contents of a building located in a special flood hazard area (SFHA) be adequately insured when both the building and the contents secure the loan. The bulletin next examines using vendors to help comply with the requirement that a lender or servicer notify borrowers when a policy lapses or has insufficient coverage. Finally, it reviews the use of vendors for initial and life-of-loan flood insurance determinations.

Commercial Contents

Issue
Violations can occur when a bank engages vendors that lack awareness or understanding of the regulatory requirements for flood insurance. Failing to monitor the work performed by the vendor can exacerbate this risk.

General Rule
Regulation H, 12 CFR 208.25(c)(1), provides in relevant part that “[a] member bank shall not make, increase, extend, or renew any designated loan unless the building or mobile home and any personal property securing the loan is covered by flood insurance for the term of the loan.” The current limits under the National Flood Insurance Program (NFIP) are $500,000 for nonresidential structures and $500,000 for contents located in nonresidential structures.

According to question 39 of the Interagency Questions and Answers Regarding Flood Insurance, “flood insurance is required for a building located in an [SFHA] and any contents stored in that building.” More specifically, contents coverage is required when the institution has a security interest in the building and its contents and when the contents are within a building located in an SFHA. Therefore, for buildings located within an SFHA, flood insurance on the contents of the building is required if the security instrument lists the building and its contents as security for the loan. The type of instrument used to secure the collateral (for example, a mortgage or a security agreement) does not determine if flood insurance is required. Instead, any instrument creating a security interest triggers flood insurance requirements. Similarly, the lien on the property does not need to be legally perfected for the flood insurance requirements to apply. The purpose of the lien also does not matter. Whether the security interest is taken as the primary source of collateral or as an abundance of caution, the flood insurance requirements are the same.

Outside attorneys providing settlement services for commercial transactions are considered vendors; they represent an outsourced function of the bank. In some cases, settlement attorneys are responsible for drafting, or have license to alter, the security instrument. The bank’s failure to oversee this function increases the risk of violations. For example, although a bank may intend to secure the loan with real estate only, the institution’s settlement attorney may include language in the security instrument that

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references the institution’s security interest in “all inventory” or “all business assets.” This broad language can create a security interest in the building’s contents, triggering the requirement to obtain contents coverage. If the bank is unaware of this provision in the security agreement, the loan could close without the required flood insurance covering the contents. Further, if the bank fails to effectively monitor its portfolio of loans secured by property located in an SFHA, the contents may remain underinsured for an extended period. It is, therefore, important for the lender to carefully communicate with its outside counsel concerning the scope of the security agreement.

**Force-Placed Coverage**

**Issue**

Banks often use third parties to monitor loans secured by property with flood insurance, including tracking policy expirations, notifying borrowers when coverage will lapse, and force placing coverage, if necessary. One common violation noted during consumer compliance examinations is the third party’s failure to send timely notice to the borrower that flood insurance coverage has lapsed. This practice may expose the bank to regulatory risk for failure to provide the required force placement notice.

**General Rule**

Regulation H, 12 CFR 208.25(g)(1), provides that, if a member bank, or a servicer acting on the bank’s behalf, determines that a “designated” loan (that is, a loan secured by a building or mobile home located in an SFHA for which flood insurance is available) does not have coverage or has an insufficient amount of coverage, the bank or its servicer must notify the borrower to obtain the required amount of flood insurance. If the borrower fails to do this within 45 days after the notice is sent, the bank or servicer must force place the insurance. The bank or its servicer may charge the borrower for the cost of premiums and fees incurred in purchasing the insurance. The Biggert–Waters Flood Insurance Reform Act of 2012 permits banks to begin charging for premiums or fees incurred for coverage beginning on the date on which the flood insurance coverage lapsed or did not provide a sufficient amount of coverage.

Some banks rely on vendors to track policy expirations, provide the notice that the borrower must obtain flood insurance, and force place insurance, if necessary. As a courtesy, some vendors send notices in advance of a policy expiring to remind the borrower to renew the policy. While this is a permissible practice, a bank or its servicer is still obligated to notify borrowers to obtain coverage once it learns that a policy lapsed or the amount of coverage is insufficient.

Policies issued under the NFIP provide a 30-day grace period during which an expired policy remains in effect, provided the policyholder renews the policy within 30 days of the policy expiration date. A vendor’s failure to notify the borrower of a lapsed policy increases the risk the borrower will be unable to renew the NFIP policy within the 30-day grace period, potentially leading to an extended period in which the property is uninsured or to the borrower paying a higher premium for a more costly force-placed insurance policy.

**Initial Flood Insurance Determination and Life-of-Loan Monitoring**

**Issue**

Some banks rely on vendors at loan origination to determine if a property securing the loan is located in an SFHA and to monitor if Federal Emergency Management Agency (FEMA) changes the flood insurance rate maps for the property during the life of the loan.

**General Rule**

Flood insurance regulations require that when a lender makes, increases, extends, or renews a designated loan, the borrower must purchase flood insurance in the required amount. If a bank relies on a vendor to determine whether flood insurance is required and the vendor erroneously determines it is not, the bank could originate a loan requiring flood insurance for which it failed to require the borrower to have insurance. Not only is this failure to require flood insurance a violation of Regulation H, but, in the event of a flood, the bank’s collateral could be damaged or destroyed, and the loss would not be covered by flood insurance.

Similarly, the National Flood Insurance Act directs FEMA to update flood maps every five years to reflect current conditions. If a lender hires a life-of-loan vendor to monitor whether a property securing a loan is later remapped into an SFHA and the vendor communicates the map change to the lender, the lender is required to ensure that flood insurance is obtained in accordance with regulations. If the lender or its servicer fails to act on the vendor’s notification, the bank faces another violation of Regulation H. Once a lender learns that a designated loan lacks sufficient flood insurance, it must send a notice to the borrower to obtain insurance and force place insurance within 45 days of notification, if necessary.

**Sound Practices**

While institutions may rely on outside vendors, an institution is ultimately responsible for ensuring that outsourced activities are conducted in a safe and sound manner and comply with applicable laws and regulations. Therefore, institutions should adopt risk management processes commensurate with the scope and nature of their third-party relationships. The following are some practices that institutions may consider adopting to mitigate the risks associated with vendor management:

- Perform a risk assessment of the activity that will be outsourced, which should be updated periodically. SR letter 13-19/CA letter 13-21 recommend determining if outsourcing is consistent with the business strategy of the organization. If so, management should consider:
  - The benefits and risks of outsourcing the activity as well as the risk of using a vendor;

*Vendor Management Considerations Continued on Page 12*
o Whether qualified vendors are available to perform the service; and,
o Whether the institution has the ability and expertise to oversee the relationship.

• Conduct due diligence:
o Vet the vendor properly to ensure that a qualified vendor is selected. Comprehensive research on the third-party vendor should include a review of its:
  • Business background, reputation, and strategy;
  • Financial performance and condition; and,
  • Operations and internal controls.

• Include performance expectations in the service contract. A contract memorializes the parties’ obligations. Clearly setting forth performance expectations will help avoid misunderstandings.

• Conduct oversight and monitoring of third-party vendors to ensure they are operating effectively and in accordance with bank policies and regulatory requirements. The oversight process, including the level and frequency of management reporting, should be risk focused.

Notes
1 - The federal agencies’ implementing regulations for the Flood Disaster Protection Act of 1973 are found at 12 CFR 208.25 (Regulation H) for institutions supervised by the Federal Reserve Board (Board), 12 C.F.R. part 22 for institutions supervised by the Office of the Comptroller of the Currency, 12 CFR part 339 for institutions supervised by the Federal Deposit Insurance Corporation, 12 CFR part 614 (sub-part S) for institutions supervised by the Farm Credit Administration, and 12 CFR part 760 for institutions supervised by the National Credit Union Administration. This article refers to the flood insurance requirements of the Board’s Regulation H, but the other agencies’ regulations are substantially similar.


4 - 42 U.S.C. 4012A(e)(2); 12 CFR 208.25(g)(1).


6 - 12 CFR 208.25(c).

7 - 42 U.S.C. 4101(e).

8 - 12 CFR 208.25(c)(1).
Reward Those Who Serve
Nominate an Iowa Community Banker for the Robert D. Dixon Founders’ Award

Over the last 48 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 48th Management Conference and Annual Convention, July 17-19, 2019 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 24, 2019. The nomination form can be completed online at cbiaonline.org, or you can 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 submit nominations for or to receive the Founders’ Award. Contact 515-453-1495 with questions.

Previous Robert D. Dixon Founders’ Award Recipients:

2018 - Thomas Bates
2017 - Robert Steen
2016 - Robert J. Dixon
2015 - Marti Rodamaker
2014 - Steve Lane
2013 - Dale Torpey
2012 - C.E. Walsh
2011 - Kurt Henstorf
2010 - Larry Winum
2009 - James Brown
2008 - Harold Harms
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2006 - Arnold C. Schulz
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Community banks ask for nothing but a level playing field on which to compete. In a fair fight, we like our chances. As I became the new ICBA chairman at ICBA LIVE in Nashville, Tenn., last month, I shared a personal story about how my bank came together in the face of a challenge and succeeded by demonstrating our value.

When one of our oldest small-business customers said they would be moving to a larger financial institution, I promised to personally lead the transfer if we couldn’t prove we were their best possible financial partner. We had two weeks to prepare our pitch.

In the process, we articulated our formula for successful community banking and began to publicly hold ourselves accountable to each of our constituent groups—on our website, in our marketing material, even on the walls of our branches. And during our meeting with the longtime customer who had one foot out the door, we showed that our shared vision could best be realized through our mutually satisfying relationship.

We held on to that customer, and they are still our customer to this day. But if they had walked away, it would not have changed who we are. We are an independent community bank. We balance the needs of our customers, employees, shareholders and community at large.

As community bankers and members of ICBA, we all instinctively and intrinsically understand the value of a community bank relationship. For nearly a century, ICBA has fought to protect our franchise value and advance the community bank business model, to create and promote an environment where community banks can flourish.

This is the business we have chosen. And as we continue to fight to preserve the community banking model, to keep our reputations clean and to exert our influence in Washington, I like our chances.

Preston Kennedy is President & CEO of Zachary Bancshares, Inc. in Zachary, LA.
Flourish
Written By: Rebeca Romero Rainey, President & CEO of ICBA

It was wonderful to see so many of you at ICBA LIVE a few weeks ago in Nashville, Tenn. It’s always great to be with fellow community bankers, and now, as ICBA president and CEO, our members! What a great time we had—full of learning, inspiration and fun.

Our theme this year was all about being bold, in innovation, leadership and life. Stepping into the unknown can help us accomplish great things. It forces us to see things from a new perspective, and it challenges us in ways that make us question, learn, improve and grow. It helps us to flourish.

It could be something as simple as making a loan to a new kind of business in your community, or bringing in a new technology. Whatever gives you the opportunity to do something positive for your customer, your community and your bank.

As community bankers, we are bold in our communities every day, but we can all try stretching just a little bit further. Our industry has so much momentum right now, especially in terms of advocacy and innovation, so now is the time to continue to push the boundaries.

That’s why, if you aren’t already planning to join us in Washington, D.C., later this month for ICBA’s Capital Summit (icba.org/capitalsummit), I encourage you to register. We’d love to have you join us. We need every community banker, from every corner of our nation, to tell the positive story of our industry with legislators. We need you to tell them how community banks, our customers and our communities are affected by the regulatory burden, unfair competition from credit unions and the Farm Credit System, and issues around data and cybersecurity.

Our newly released legislative and regulatory platform, Community Focus 2020: The Community Bank Agenda for Expanding Economic Opportunity (icba.org/communityfocus2020), is a multifaceted advocacy approach for the 116th Congress. ICBA has been hard at work sharing this framework with policymakers. We’re advocating common-sense reforms that will promote greater access to financial services and economic opportunity in local communities nationwide.

Who else is better equipped to advocate for economic prosperity at the local level? Nobody except you, community bankers. Feel honored and privileged to be part of such a profound mission. Your community and customers count on you.

So, let’s continue to be bold as we move forward after yet another fantastic national convention. We look forward to seeing you in Washington from April 28–May 1 for the ICBA Capital Summit!

As well as being President & CEO for ICBA, Rebeca Romero Rainey is CEO of Centinel Bank in Taos, New Mexico.
Before 2018 gets too much further into our rearview mirrors, it may be worthwhile to review what investment portfolio lessons we can derive for future reference. The popular notion among community bankers is that, for all the positives that the industry enjoyed last year (record earnings, continued loan growth, and solid credit metrics), the bond portfolio was a lagging performer. I believe most of that impression was the result of fixed-income investments being, for the most part, underwater.

It may therefore surprise you to learn that, in 2018:

• Tax-equivalent yields improved nicely to 2.78%, an increase of 32 basis points (0.32%);
• Average lives actually decreased from 4.4 years to 4.3 years; and
• Net unrealized losses did increase, but only by about 1 percent of face value.

That third bullet point may sound like fake news, alternative facts, or just old-fashioned spin, but the average net unrealized loss as of December 31 was still only about 1.5 percent. The average bank’s bond portfolio was further underwater than that for most of the year and was down around 3.0 percent as late as November.

Late rally
The relative stability in bond prices for 2018 was all the more impressive when one considers that the Fed raised interest rates four times and ran off nearly $400 billion from its still-prodigious balance sheet. Of course, some of the support for bond prices in the last quarter of the year was fallout from the stock market’s correction, and a spate of indicators that signaled some weakness in certain segments of the economy. This includes modest, if not disappointing, inflation.

And rates did fall by significant amounts. In the 90 days from Dec. 1, 2018, to Mar. 1, 2019, maturities from two to 10 years all decreased by about 25 basis points in a rare example of a parallel shift in the yield curve. What that means for the community bank portfolio manager is that some investments may have moved in-the-money to be called or refinanced.

Called upon
With overnight rates below 2.5 percent, and yields on government agency bonds not much more than that, it doesn’t take an ambitiously high stated coupon rate to get called. For example, in Feb. 2019, 201 different agency issues totaling $9.5 billion were called. The following issues are cases in point:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Coupon Rate</th>
<th>Maturity</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHLB</td>
<td>2.54%</td>
<td>5-22-2020</td>
<td>Quarterly</td>
</tr>
<tr>
<td>FHLMC</td>
<td>2.625%</td>
<td>6-28-2021</td>
<td>Step-Up</td>
</tr>
<tr>
<td>FNMA</td>
<td>2.94%</td>
<td>8-27-2021</td>
<td>Quarterly</td>
</tr>
</tbody>
</table>

Most community bank managers have their portfolios’ expected redemption dates graphically displayed in a bar chart, by quarter or year. Broker-dealers or interest rate consultants commonly provide this information upon request. As most bonds owned by community banks have some type of call option embedded in them, the cash flow graph with rate shock scenarios resembles an inverted bell curve, with increased cash flow from falling rates in the near term, and increased cash flow from rising rates in the distant future.

Step with a ladder
This column will now enter the recommendation stage. As alluded to earlier, the curve is very flat out to about the seven-year stage. At some point, we will see a steepening of the curve, and usually a steepening occurs when the Fed is cutting rates. Bond wonks refer this condition as a “bull steepener.”

A suggestion is to get a grip on how much of your portfolio would be at risk of being called away, if and when rates fall. Most full-service brokers can produce for you a simple cash flow table, which calculates how much cash your portfolio will throw off each month, in a wide range of rate scenarios. This report should be complimentary and can be updated frequently, including weekly.

Secondly, and this hasn’t been talked about very much this decade, the portfolio structure known as a “ladder” performs pretty well when the yield curve steepens. Portfolio managers that have built out the alternative construct known as the “barbell” have been rewarded over the past five years. Ladders produce superior total returns with bonds that have some degree of “lockout” (a.k.a. call protection). Agency bonds are staples of this strategy.

Don’t let an unexpected interest rate swing whip your investments’ cash flows around. Stay attuned to your call risk and consider building a solid ladder as a foundation of your bond portfolio.

Jim Reber is president and CEO of ICBA Securities and can be reached at 800-422-6442 or jreber@icbasecurities.com.

Written By: Jim Reber
President and CEO
ICBA Securities
As part of your bank’s strategy, how well does your organization manage your customers? Whether your Customer Management System (CRM) is formal and expensive or more informal and less expensive, how effectively you manage your customers is critical to the strength of your relationship with them.

When I visit with organizations about their current relationship with their customers and how they manage the relationship, the first question I ask is: What is your first gut reaction when a customer calls? Usually there are two common reactions....a sinking feeling OR your heart soars. Let’s considering the soaring reaction first. You are pleased that they have called because you are confident that the call will be a request for your product or service, an opportunity for new business, or maybe a request for your expert opinion on some matter. If you have this positive reaction to a customer’s call, I would predict that your system for responding to customers’ needs is in good shape. Congratulations!

What I have found more often to be the case is that the reaction to the call churns up negative feelings....What do they want now? What is wrong? If that is the case, it is time for some real attention to your system of customer care.

Where do you start?
To assess the current state of your customer management system, these are some initial questions to ask:

- Do I know what is of value to my customer? In this quickly changing world we live in, the needs of customers change. If you don’t make the effort to really know what they value, someone else will.
- Do I understand their requirements? Make it a point to ask if your product or service is fulfilling their needs. What is currently causing them pain? Can you find a solution or them? They will so appreciate that you are interested enough to ask.
- How close am I to them, to understand their needs? How often do you communicate with them? Weekly, monthly, quarterly, annually? Find ways to make more frequent contact with them – in person, on the phone, by email. Show you care.
- Am I ever afraid to ask for their requirements? A common reason I hear is that organizations are afraid they will not be able to supply what they need. How will you ever overcome this fear if you don’t ask them to understand their needs? You can’t ASSUME that you KNOW their needs...we all know what ASSUME spells.

A fact that you cannot ignore about business today is that THE CUSTOMER is in the drivers’ seat. They are much more savvy than they were in the past. Accept the challenge and take the time today to assess your management of your customers and take steps to strengthen your relationship with your customer. Choose to SOAR!

I welcome any comments or questions you have for me at: doliver@iqc.org, Dr. Deb Oliver, Executive Director, Iowa Quality Center, Affiliate Member of CBI.
Main Street
Rural Economic Survey

Rural Mainstreet Index Falls for February, Rises for March:
Almost Two-Thirds of Banks Raised Farm Loan Collateral Requirements;
Almost Half Report Negative Flood Impacts

**February 2019 Survey Results at a Glance:**
- Overall index remains above growth neutral for the 11th time in past 12 months.
- Bank CEOs project a 6.1 percent decline in farm equipment sales over the next year compared to a 6.9 percent reduction last February.
- Weak farm income has pushed almost two-thirds of banks to increase collateral requirements on farm loans.
- Almost one-third of banks have increased the farm loan rejection rate due to anemic farm income.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index for February fell, but remained above growth neutral, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

**Overall:** The overall index sank to 50.2 from January’s 51.5. This was the 11th time in the past 12 months the index has remained above growth neutral. The index ranges between 0 and 100 with 50.0 representing growth neutral.

“Our surveys over the last several months indicate the Rural Mainstreet economy is expanding outside of agriculture. However, the negative impacts of tariffs and low agriculture commodity prices continue to weaken the farm sector,” said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University’s Heider College of Business.

Don Reynolds, chairman of Regional Missouri Bank in Columbia, Missouri, reported that, “2018 was not a great year for farmers in our area, but for the most part they have done better than we anticipated. Cash flow projections for 2019 look very tight.”

**Farming and Ranching:** The farmland and ranchland-price index for January increased to 42.2 from 37.9 in January. This is the 63rd straight month the index has fallen below growth neutral 50.0. The January farm equipment-sales index slumped to 32.8 from January’s 40.9. This marks the 66th consecutive month that the reading has remained below growth neutral 50.0.

Bankers were asked to estimate the change in agriculture equipment sales in their area for the next year. On average, bankers expect another 6.1 percent decline in farm equipment sales over the next year. This is an improvement from last year at this time when a 6.9 percent decline was expected.

**Banking:** Borrowing by farmers for February was strong as the borrowing index soared to 71.3 from January’s 55.8. The checking-deposit index plummeted to 40.9 from January’s 67.6, while the index for certificates of deposit and other savings instruments slipped to 47.0 from 47.1 in January.

**March 2019 Survey Results at a Glance:**
- Overall index moves above growth neutral and to its highest level since December of last year.
- More than half of supply managers reported negative economic impacts from flooding.
- Approximately 82.9 percent of bankers reported that the number one reaction to farmer financial stress has been restructuring loans.
- On average, bankers expect approximately 18 percent of grain farmers to experience expenses to exceed revenue for 2019. Up only slightly from March 2018.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index for March rose to its highest level since December of last year according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. A large share of survey responses occurred before most of the negative impacts of the recent floods became widely known.

**Overall:** The overall index expanded to 52.9 from 50.2 in February. This is highest reading since December of last year, and the eleventh time in the past twelve months that the index has moved above growth neutral. The index ranges between 0 and 100 with 50.0 representing growth neutral.

“Our surveys over the last several months indicate the Rural Mainstreet economy is expanding outside of agriculture. However, the negative impacts of tariffs and low agriculture commodity prices continue to weaken the farm sector,” said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University’s Heider College of Business.

**Farming and Ranching:** The farmland and ranchland-price index for March slumped to 36.4 from February’s 42.2. This is the 64th straight month the index has fallen below growth neutral 50.0. The February farm equipment-sales index was unchanged from February’s 32.8. This marks 67th straight month that the reading has fallen below growth neutral 50.0.

Bankers were asked to estimate the percentage of grain farmers in their area that were projecting negative cash flow for 2019. On average, bankers expect approximately 18 percent of grain farmers to experience expenses to exceed revenue for 2019. This is approximately one percent higher than last March’s results when the same question was asked.

However, Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Illinois, reported, “2019 will again be a critical point in the progression of deterioration of balance sheets from this depressed farm economy. Working capital buffers have been greatly reduced by negative cash flows the last four years with cash flows again stressed to negative for the current crop year.”
Tables 1-3 summarize survey findings *(click each table to view larger):*

<table>
<thead>
<tr>
<th>Table 1: Rural Mainstreet Economy February / March 2019: One Year Ago and Last Two Months (index &gt; 50 indicates expansion)</th>
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<tbody>
<tr>
<td>----------------</td>
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<tr>
<td>Area economic index</td>
</tr>
<tr>
<td>Loan volume</td>
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<tr>
<td>Checking deposits</td>
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<tr>
<td>Certificates of deposit and savings instruments</td>
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<tr>
<td>Farmland prices</td>
</tr>
<tr>
<td>Farm equipment sales</td>
</tr>
<tr>
<td>Home sales</td>
</tr>
<tr>
<td>Hiring</td>
</tr>
<tr>
<td>Retail business</td>
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<tr>
<td>Confidence index (area economy six months out)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2: Rural Mainstreet Economy February 2019</th>
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</thead>
<tbody>
<tr>
<td>Percentage of bankers reporting</td>
</tr>
<tr>
<td>Greater than 15% reduction</td>
</tr>
<tr>
<td>In terms of agriculture equipment sales for dealers in your area for the next year, what do you expect?</td>
</tr>
<tr>
<td>No change in lending</td>
</tr>
<tr>
<td>Which of the following has been your bank’s response to weak farm income (click all that apply)?</td>
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</tbody>
</table>

<table>
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<tr>
<th>Table 3: Rural Mainstreet Economy March 2019</th>
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</thead>
<tbody>
<tr>
<td>Percentage of bankers reporting</td>
</tr>
<tr>
<td>1% - 4%</td>
</tr>
<tr>
<td>What percentage of grain farmers in your area are projecting negative cash flow for 2019?</td>
</tr>
<tr>
<td>Not an issue</td>
</tr>
<tr>
<td>How big of an economic issue or problem are property taxes for farmers in your area?</td>
</tr>
<tr>
<td>Little or no impact</td>
</tr>
<tr>
<td>What has been, or will be, the impact of recent floods on your local economy?</td>
</tr>
</tbody>
</table>

For historical data and forecasts, visit: [www.creighton.edu/economicoutlook](http://www.creighton.edu/economicoutlook). Follow Ernie Goss on Twitter [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)
SEE THINGS FROM A NEW PERSPECTIVE.

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ICBA Securities can help you reach the pinnacle of success. From risk management to performance profiles to yield forecasting, we'll work with your community bank to identify goals, increase your earnings and grow your franchise.

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