the COMMUNITY BANKER UPDATE

The LENDING ISSUE

MARCH 2016

OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS OF IOWA

CBI

Want To Attend A Webinar?

View a complete calendar and register for CBI-sponsored webinars and events at www.cbiaonline.org or Call Us at 515.453.1495 for more information.

MARCH 2016 WEBINAR LINE-UP

Mar. 1	Telephone Consumer Protection Act: What You Need to Know About the New Requirements
Mar. 2	How to Complete & File UCC-1 Financing Statements
Mar. 3	Required Compliance for Commercial Loans Secured by Real Estate
Mar. 8	Director Series: What Directors Should Know About CECL, ALLL & New Credit Impairment Standards
Mar. 9	Post EMV Card Liability Shift: Managing & Mitigating Card-Not-Present Fraud
Mar. 10	SBA Lending Update: Regulations, Trends & Overview of SBA One
Mar. 14	Audit Compliance Series: Auditing for TRID Compliance
Mar. 15	Quarterly Emerging Leader Series: Developing Executive Presence Skills: Presentations, Poise & Professionalism
Mar. 16	Determining Cash Flow from Personal Tax Returns
Mar. 22	Cyber Series: Outsourcing Tech Services: Regulations, Examiner Expectations & Actions for Vendor Management
Mar. 24	Developing Your Same-Day ACH Game Plan
Mar. 29	Debt Collection Series: Your Customer Has Filed Bankruptcy, Now What?
Mar. 30	Hot Topics in Social Media Strategies: Techniques & Trends for Community Banks
Mar. 31	2016 Leadership Development Conference

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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.**

Is everyone at your bank receiving *CommonCENTS*? If not, send a list of the names and email addresses that you would like added to the recipient list to klee@cbiaonline.org.

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.

UPCOMING EVENTS CALENDAR

LOT Leadership Development Conference ..... **Mar. 31 - Apr. 1**
Marriott Downtown, Des Moines • *See pg 7*

Community Bank Summits ..... **Apr. 5 - 6**
Waterloo: Apr. 5; Riverside: Apr. 6 • *See pg 6*

CBC Spring Seminar ..... **Apr. 20 - 21**
Hilton Garden Inn, Johnston • *See pg 8*

Assist Students and Keep Your Customers' Business with the Partnership Loan Referral Program

IOWA STUDENT LOAN®

Iowa Student Loan has offered private student loans for more than 20 years. During that time, they have helped approximately 120,000 students obtain the additional funding necessary to achieve their postsecondary education goals. Lenders can assist in that effort, retain customers, and earn referral fees with the Partnership Loan Referral Program.

Iowa Student Loan will pay your bank a referral fee for each borrower who is referred from your website and subsequently receives a Partnership Advance Student Loan disbursement. To participate:

- Complete the enrollment information form to request information about the program.
- An Iowa Student Loan representative will contact you to complete a contract and give you your custom enrollment information.
- Place a link to the Partnership Loan application on your website.
- Iowa Student Loan will provide you with a custom URL link and text for your website.
- Begin to receive quarterly referral fees.

The Partnership Loan is a supplemental private student loan that offers:

- Terms and conditions your customers will know upfront before they apply.
- Fixed and variable interest rate options.
- Different payment options while students are enrolled.
- Benefits such as cosigner release and interest rate reduction for auto-debit.
- Financial literacy information through Student Loan Game Plan℠ during the application process.

The program is open to Iowa residents and to out-of-state residents attending school in Iowa. Each loan is fully serviced by Iowa Student Loan's Aspire Servicing Center.

Other Iowa Student Loan Resources

The Iowa Student Loan website has a host of smart borrowing resources designed to help students and parents make wiser decisions for funding college educations. Online resources and tools available include:

- Student Loan Game Plan, designed to assist in planning the true amount students actually need to borrow for college.
- Return On College Investment (ROCI) Tool and ROCI Reality Check, tools that explore jobs and earnings achieved by graduates of specific majors.
- Fact sheets like Borrowing Levels by Major, Career Planning Checklist for Students, College Lifestyle Audit for parents/cosigners, and Life Cycle of a Loan.
- Budget calculators for In-School, Monthly budgets, and Loan Payment.

For more information on the Partnership Advance Student Loan, the Partnership Loan Referral Program, financial literacy and borrowing resources, or other Iowa Student Loan programs, visit www.iowastudentloan.org or contact Suzanne Lowman at 515-273-7421.

Are You Utilizing USDA Rural Development Loan Guarantee Programs?

USDA Rural Development has announced the availability of $232 million in guarantee home loan funding and more than $9 million in direct home loan funding to qualified rural Iowa households for the remainder of 2016. With guaranteed lending a loan is made to a borrower by the lender following the same basic steps as a conventional loan. USDA Rural Development provides up to a 90 percent guarantee to the lender on qualifying loans, reducing the lender's risk in the event of a default by the borrower.

"Homeownership provides a strong foundation to help build household wealth, start a business, fund education through home equity, or give someone a chance to build a better future," said Bill Menner, USDA Rural Development State Director in Iowa. "That's why, during the past seven years, nearly $2 billion in USDA Rural Development funding has helped improve housing opportunities for tens of thousands of rural Iowans."

USDA Rural Development's guaranteed home loan and direct home loan programs offer competitive interest rates, fixed terms and require no down payment to help eligible families living in rural communities and areas purchase new or existing homes. Loans, and some grants, are also available to help families make needed repairs to their homes.

Typical income limits for a household of four are $75,650 for the guaranteed loan program and $49,450 for the direct loan program. Income limits vary by county and household size, so applicants are encouraged to USDA Rural Development staff for limits in their specific area. Eligible homes must be located in a rural area and/or a community of generally less than 20,000 residents.

Other USDA Programs and Services for Lenders
USDA Rural Development operates over fifty financial assistance programs for a variety of rural applications. A few of the loan guarantee programs available are:

Business & Industry Loan Guarantees - This program bolsters the existing private credit structure through the guaranteeing of loans for rural businesses, allowing private lenders to extend more credit than they would typically be able to. Eligible borrowers for this guarantee include for-profit businesses, nonprofits and cooperatives, federally-recognized tribes, public bodies, and individual. Max loan guarantees are 80% for loans of $5 million or less, 70% for loans between $5 and $10 million, or 60% for loans exceeding $10 million, up to $25 million max.

Community Facilities Guaranteed Loan Program - This program provides loan guarantees to eligible private lenders to help build essential community facilities in rural areas. Private lenders may apply for a loan guarantee on loans made to an eligible borrower that is unable to obtain the needed commercial credit on reasonable terms without the guarantee. Eligible borrowers include public bodies, community-based non-profit corporations, and federally-recognized tribes. Funds can be used to purchase, construct, and/or improve essential community facilities, purchase equipment and pay related project expenses. A maximum of 90% of the eligible loan loss may be guaranteed.

Rural Energy for America Program Renewable Energy Systems & Energy Efficiency Improvement Loans & Grants - Provides guaranteed loan financing and grant funding to agricultural producers and rural small businesses to purchase or install renewable energy systems or make energy efficiency improvements. Loan guarantees are completed continuously throughout the year. Agricultural producers with at least 50% of gross income coming from agricultural operations, and small businesses in eligible rural areas may apply. Loans may be guaranteed for up to 75% of total eligible project costs.

For more information on USDA Rural Development loan guarantee programs visit www.rd.usda.gov/programs-services/programs-services-lenders, or contact the USDA Rural Development State Office at 515-284-4663.

Register Now for CBI's Spring Community Banking Summits

Discussions on Iowa Rural Economic Development, Millennials

April 5 - Waterloo
Isle Capri Casino & Hotel

April 6 - Riverside
Riverside Casino & Resort

Guest Speakers:

Mike Lehr
HR & Sales Consultant
Young & Associates

Lisa Shimkat
Iowa Director
Small Business
Development Center

CBI invites you to network with other Iowa community bankers at the Spring Community Banking Summits, being held April 5th at Isle Capri Hotel in Waterloo and on April 6th at Riverside Resort in Riverside. Summit presentations begin at 3:00 p.m. and conclude at 5:30 p.m., with a dinner reception and prize giveaway to immediately follow.

This Spring's Summits include guest speakers Mike Lehr, HR & Sales Consultant with Young & Associates, and Lisa Shimkat, Iowa Director of the Small Business Development Center. Lisa will present and discuss findings on the state of rural economic development in Iowa. Keynote speaker Mike Lehr's presentation "Embracing the Millennial Generation Gap" will highlight differences between the millennial worker and consumers, trends that influence millennials, and the ways community banks can work more effectively with them

REGISTER TODAY; the fee for each Summit is **only $35 for bankers**, and $50 for CBI Endorsed/Associate/Affiliate members! Visit cbiaonline.org to register or to view the Event Brochure. Still have questions? Call us at 515.453.1495 or contact **Jackie Haley** at jhaley@cbiaonline.org.

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Welcome New CBI Members!

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

Bank Compensation Consultants

BigIron Online Auction Services

FRSecure LLC

IBA Securities - Broker Dealer Financial Services Corp.

MachineryLink Solutions

Raymond James

14th Annual Leadership Development Conference

March 31-April 1

Marriott Downtown - Des Moines

For more information and to register, visit cbiaonline.org

Featured Speakers

Chip Lutz
Retired Naval Officer
& Motivational Speaker

"Unconventional Leadership"

Kyle Munson
Columnist
Des Moines Register

"Post-Caucus Report"

Ron Hansen
Superintendent
Iowa Division of Banking

Chairman & CEO
Liberty Trust & Savings Bank

Howard Hagen
Attorney & Partner
Dickinson Law

"Survive and Thrive In This Increasingly Disrupted Banking Economy"

Directors' Panel

Sean McMurray
West Bank
West Des Moines

Christine Clausen
TS Bank
Treynor

Rob W. Dixon
Rolfe State Bank
Rolfe

Jim Kennedy Jr.
Fidelity Bank & Trust
Dubuque

Breakout Session Speakers

Mike Schon
Grain Merchandiser
ProCoop
Pocahontas

Shane Bauer
First VP/Security Officer
Bankers' Bank
Madison, WI

Jenn Franzeen
Senior Associate
RSM US LLP
Des Moines

Jennifer Nelson
Senior Associate
RSM US LLP
Des Moines

Thank You to the following 2016 Leadership Development Conference Sponsors!

Keynote Speaker Sponsor: FHLB DES MOINES

Directors' Panel Sponsor: MIB — One Source. One Call.

Roundtable Breakfast Sponsor: SHAZAM

Conference Dinner Sponsors:

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Iowa Trust & Savings Bank – Emmetsburg
Kirk Gross Company – Waterloo
LSB Wholesale – Waterloo
MIB – Jefferson City, Missouri
Quad City Bank & Trust – Bettendorf
RSM US LLP – Des Moines
Security Savings Bank – Eagle Grove
Security Savings Bank – Gowrie
Single Source Architects & Master Builders – Waterloo
West Bank – West Des Moines

Compliance Officers and Lenders: Attend This Valuable Education Session

CBC Program Spring Session Seminar - April 20-21 in Johnston

CBI's Community Bankers for Compliance Program (CBC) Fall Seminar is coming up **April 20-21** at the Hilton Garden Inn in Johnston, Iowa. 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.

On Day 1 of this session you'll be presented with "RESPA in a TRID World", which will focus on what RESPA still requires, reviewing regulatory language, and recently changed exam procedures. The first portion of Day 2 will tackle Compliance Management and Risk Assessment, taking a look at compliance management systems from the viewpoint of regulators and the industry. The second portion of Day 2 will discuss the risk assessment process itself, in particular on Reg E, BSA, and TRID. *Send your bank's Compliance Officers and Lenders to get in-depth knowledge on these complex regulations!*

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 information and to register for the Spring Seminar or the full CBC Program, visit the Programs tab at www.cbiaonline.org or contact **Pretty Patel** at 515.453.1495 or ppatel@cbiaonline.org.

2016 Community Bankers for Compliance Program

SPRING SEMINAR SESSION
APRIL 20-21, 2016

Hilton Garden Inn
8600 Northpark Drive, Johnston, Iowa

CBI Members:
$350 for each 1-day session
$150 for each additional representative

Non-Members:
$550 for each 1-day session
$250 for each additional representative

Register Online at www.cbiaonline.org

Sponsor the 2016 Money Smart Week Poster Contest At Your Bank

Marketing 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 and the Money Smart Week campaign (this year, April 23-30, 2016), hosted by the Federal Reserve Bank of Chicago to increase financial literacy among children. Once again, it's time to encourage schools and students in your communities to participate!

From now until April 23, students in 2nd through 6th grades may create a poster and return it to their local participating community bank. Poster designs should answer the theme question ***"Why is it important to know about money?"*** Judging criteria include creativity, message, and depiction of the theme.

This year, the prizes have been increased again! Three prize places will be awarded: Grand Prize - a $600 Certificate of Deposit, 2nd & 3rd Places - each a $300 Certificate of Deposit (up last year from $500 and $200 respectively). The prize CDs will be set up by the bank who submitted the winning posters, but will be funded by CBI.

Sponsor the Money Smart Week Poster Contest in your bank! Register to participate and download the marketing kit at cbiaonline.org.

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 23-30. Participating community banks should submit all poster entries to the CBI office for judging by **Monday, May 9, 2016**. *All poster entries MUST have a completed poster entry label affixed to the back of the poster to be eligible--no exceptions!*

Sponsoring the Contest is open ONLY to CBI member banks and any of their branches *within the state of Iowa*. Posters received by non-CBI member banks will not be accepted for judging. (Note: all posters submitted for judging cannot be returned.)

CBI will announce the 2016 Money Smart Week Poster Contest winners by **May 20, 2016**. If you have further questions, contact Krissy Lee at 515-453-1495 or klee@cbiaonline.org.

Support the Future of Community Banking in Iowa

Nominate a Graduating High School Senior for the LOT Scholarship Program

The Leaders of Tomorrow (LOT) is a program created by the Community Bankers of Iowa (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 30, 2016.***

Visit our website to apply online or download application forms and for more information, call CBI at 515.453.1495 or email Krissy Lee at klee@cbiaonline.org.

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.

April Is Community Banking Month

Start Planning Your Celebrations and Learn How to "Go Local"

April is Community Banking Month, a nationwide celebration recognizing the many contributions community banks make to their customers and communities. CBI encourages our members to embrace Community Banking Month and assist in the effort to Go Local. Together, we can focus the public's attention on the many ways locally owned and managed banks are making positive change happen across Iowa. Help us let all Iowans know that community banks are **"Making A Difference On Main Street!"**

Spread the Community Banking Month message to your customers, local businesses, and throughout your community. Ideas to help make Community Banking Month a success in your town include:

- **Encourage your small business customers to take a picture** outside your bank holding an I Bank Locally sign or other promotional message. Use pictures to promote your customers and your bank on your web site.
- **Offer an information session** for local prospective entrepreneurs who are interested in starting a small business. Outline how community banks like yours have the local expertise to help them get started.
- **Recognize Service.** Your bank has a vested interest in the local community. Why not honor those people or organizations that make your town a better place to live?
- **Tie in new products and services.** While you are creating advertising opportunities with Community Banking Month, why not include the introduction of new services or products available to customers?
- **Host an open house** complete with tours, refreshments, contests and giveaways.
- **Invite local schools or youth groups to tour your bank.** Make sure to promote the 2016 Money Smart Week Poster Contest during the tours! [See page 9 for more information on the Money Smart Week Poster Contest.]
- **Host a charity event.** Community banks invest in the community everyday. Sponsoring or co-sponsoring a charitable event is a great way to reach the public and show your commitment to the community.
- **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.

There are numerous ways to promote Community Banking Month and make your bank shine throughout April. Check out our Media Kit, containing promotional ideas, social media tips, and more. Download it on our website at cbiaonline.org.

Go Local logo window clings are available again this year 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 2016 CBI Member decal proudly displayed as well!

To request Go Local or 2016 CBI Member window clings, please contact the CBI office at 515.453.1495 or email Krissy Lee at klee@cbiaonline.org.

ICBA

WASHINGTON POLICY SUMMIT

April 24-27, 2016

Hyatt Regency Washington on Capitol Hill, Washington, DC

When Cash Goes Up in Smoke: *Calculating the Burn Rate*

Written By:
Tim Ohlde, CEO
Country Banker Systems

Solid customer balance sheets with higher than average equity are a beautiful thing. But equity doesn't pay bills or make loan payments. Cash does. Due diligence in lending involves a careful review of liquidity, the Working Capital position. When markets are volatile or the economy is down, this measurement becomes critical. A quick and effective way to quantify the depth of the Working Capital position is to calculate the "Burn Rate" for the operation. There are two common approaches to the analysis.

The Burn Rate is defined as the rate at which a business uses cash over time. It is an expression of how quickly negative cash flow will consume available Working Capital. For instance, if an operation is showing a loss (negative cash flow) of $150,000 annually and has $600,000 in Working Capital (Current Assets less Current Liabilities), the operation can sustain this level of negative cash flow for four years.

$600,000 divided by $150,000 = 4 years

Although typically calculated as an annual or monthly rate, in a crisis, it might be measured in weeks or even days. The above is a healthy or acceptable Burn Rate. Anything over three years is comfortable. Having one to three years is concerning, whereas less than one year is a definite red flag.

An alternate way to quantify Burn Rate measures how many years of debt service could be covered with Working Capital. Assuming the business above does NOT have a negative cash flow, but is profitable, one can shift attention to how much cushion exists with Debt Service payments. For example, if the operation still has the same $600,000 in Working Capital and has total annual debt AND lease payments PLUS interest of $200,000, one can determine how many years of required payments could be covered by Working Capital Reserve.

$600,000 divided by $200,000 = 3 years.

When reviewing the Burn Rate using this calculation, a cushion of less than 2 to 3 years is considered a red flag. Anything over 5 is very strong and between 3 and 5 needs watching.

A high cash Burn Rate is not sustainable over time. The simplistic calculations above give a natural place to start the analysis, but they don't tell the whole story. Gathering detail related to the quality of Working Capital is important.

True cash in the form of checking or savings accounts is the highest and best form of liquidity. It is easily and quickly accessible. Many other Current Assets take much longer to convert or require a buyer. Some such as pre-paid expense cannot be liquidated to generate cash. On the opposite side of the Balance Sheet, some Current Liabilities such as Accounts Payable have a hard due date in the very near future. This deadline may not be flexible without incurring penalties or risking the relationship with a vendor. Commercial businesses or operations that carry a high portion of Current Assets in Accounts Receivable or carry them with just a handful of key clients or vendors, are vulnerable to any disruption in those client's ability to pay.

So you've been convinced that cash is necessary. How do you help your customers see the benefit of having cash just "laying around"; not on fire, but not actually "working" for them? High quality Working Capital is beneficial for several reasons.

First, the unplanned sale of Current Assets may result in a sale when the market is weak, therefore generating only a portion of their value. Likewise, selling them to address an issue with liquidity may hinder the production/efficiency of the operation. Most customers can understand that some Current Assets simply are not as liquid as others and that selling them may not happen overnight unless a significant discount is made.

Cash-on-hand also provides the opportunity to acquire a long-term asset at a more favorable price. Instead of your customer becoming the person in the above paragraph who is selling when the market is weak, cash allows them to be the buyer getting a great deal.

Finally, liquidity or a strong cash position helps you and the customer sleep better at night. During volatile economic times, the quality and accessibility of Working Capital, cash flow of the enterprise and the Burn Rate can change quickly and dramatically. Liquidity provides room and time to maneuver when the unexpected happens. It is part of risk management, effective long-term planning and staying nimble. Knowing where the operation is going and not being subject to unpredictable day–to-day economics provides peace of mind.

At a minimum, take a look at Burn Rate across your portfolio. You'll begin to see where you might need a fire extinguisher and hopefully save yourself from having to call in the pumper truck down the road.

Tim Ohlde is President of Elk State Bank based in Clyde Kansas and Founder and CEO of Country Banker Systems, a loan analysis software company. You can reach him at timo@countrybanker.com or 800-780-5479.

Thank You, Community Bankers

Written By: Jack Hartings, Chairman of ICBA

From the TOP

As I wrap up my year as ICBA chairman and my last From the Chairman column, two words come to mind. They are, quite simply, thank you.

Thank you to all of you whom I've had the opportunity to meet over the past year during my travels, and thank you to those of you who—while our paths may not have crossed physically—stood together for one cause, community banking.

I want to thank all of you for everything you did to stand up, step up and speak up for our great industry. In my convention speech last year I asked you to do those three simple things, and without any hesitation, you did each of them. Our record demonstrates it.

Thank you for diligently reaching out your members of Congress and educating them about how issues such as regulatory burden, the Federal Reserve dividend cut and the Financial Accounting Standards Board's proposed Current Expected Credit Loss (CECL) model would impact your community bank and the communities you serve. You answered ICBA's calls to action and activated letters through the Be Heard advocacy website. You didn't waver, and you didn't sit back and wait for someone else to hit send. You did it, and it's because of you that we moved a lot of mountains during the past year.

The Fed dividend measure is a prime example. Because of ICBA's and community bankers' advocacy to scrap Senate-passed legislation that would have required all Fed-member banks to pay for federal highways via cuts to Fed dividend payments, lawmakers agreed to exempt community banks under $10 billion in assets—with larger banks receiving relief as well. While ICBA and community bankers pushed to completely drop the dividend cut ever since the ill-conceived proposal advanced last July, this community bank exemption will save our industry an estimated $200 million yearly. With more than 1,800 members of the Federal Reserve at less than $10 billion in assets, the benefits will be felt in communities nationwide. That's a huge win right there.

Another great example is FASB's CECL accounting proposal. Because we spoke out in unison, we got on FASB's radar. Its officials didn't have a choice but to listen. So finally, it happened. FASB agreed to host a roundtable last month as the direct result of our relentless advocacy. We got our seat at the table. We got our chance to be heard.

And being heard is what it's all about. It's the first step to constructive dialogue between us and key stakeholders. It's about educating and understanding. It's about putting others in our shoes. Because you live it and believe in it, you can best help them do just that.

"I want to thank all of you for everything you did to stand up, step up and speak up for our great industry."

It's this dedication and passion for our industry, your relentless dedication to your customers and communities and how you run your bank that makes me so proud to be a community banker. It's been such a privilege to represent you and our industry over the past year. I thank you for the opportunity and look forward to continue to work alongside each and every one of you in the years to come as a proud community banker.

Jack Hastings is Chairman of ICBA, and President and CEO of The People's Bank in Coldwater, Ohio.

FINE POINTS

From Farce to Menace

Written By: Camden Fine, President and CEO of ICBA

So here we go again. It's yet another disturbing proposal from the National Credit Union Administration to bureaucratically finagle its way around Congress and federal law. Even as nearly one-third of Americans are already members of a credit union, it seems there's almost nothing the NCUA still won't try to further expand the market reach and special tax-exempt privileges of the credit unions it supervises.

Talk about your captive regulator! When credit unions say "jump," the NCUA says, "how high?"

"If credit unions want to eliminate the common bond requirement, [they] should be taxed like banks and be required to shoulder the same set of regulatory standards."

Last month the NCUA's sweeping, 167-page proposal to hand federal credit unions virtually unlimited freedom to serve almost any person of any means anywhere rightly drew an avalanche of letters from infuriated community bankers. If adopted by the NCUA's unelected three-member board, the proposal would impose comprehensive and substantive regulatory changes that would allow federal credit unions to cobble together ever larger, more disparate and more imaginative fields of membership.

While the Federal Credit Union Act clearly limits membership in community credit unions to serving individuals and organizations within a well-defined local community, for example, the proposal would recognize some entire congressional districts as local communities. Even more obviously absurd, one provision would allow community credit unions in seven states—Montana, Alaska, Delaware, North Dakota, South Dakota, Vermont and Wyoming—to serve their entire state.

Basically, all air-breathing mammals in the United States would qualify to be credit union members.

The multiple provisions of the NCUA's proposal would, in combination, essentially render any field of membership requirements a meaningless policy fig leaf, particularly for multi-common bond credit unions and community credit unions. As ICBA wrote to the NCUA, this proposal makes a mockery of both the plain language and the clear intent of the Federal Credit Union Act. If credit unions or their regulator want to eliminate the common bond requirement, those credit unions should be taxed like banks and be required to shoulder the same set of regulatory standards. Or, more simply, they should adopt a bank or thrift charter.

Certainly the NCUA's obsessiveness in pushing against its regulatory limits has had almost no limits in years. In February, the NCUA dramatically expanded loopholes for member-business-lending rules for credit unions, a self-serving and imprudent policy change that only a few large bank-like credit unions could or would take advantage of. More perplexing, the NCUA is championing legislation to allow credit unions to raise investor capital, a maneuver that would jeopardize if not betray the very member-owned model for which the agency so enthusiastically cheerleads.

The NCUA's unbounded regulatory mischief has gone from silly to absurd. It's now bordering on reckless disregard for the red letter of the law.

So, yes, here we go again. But this time around it's different. By flouting congressional authority, the tax-exempt credit union model intended to serve only people of modest means and limited constituencies is on the verge of becoming fraudulent.

Rest assured that ICBA will vigorously oppose this newest NCUA proposal as a major threat.

Following Mr. Fine

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

Regulators to Banks: CRE Lending May Lead to More Required Capital

Written By: Lisa Getter
Director of Communications and Marketing
Invictus Consulting Group

Be prepared to raise additional regulatory capital if your bank can't prove to examiners that your commercial real estate concentrations are well-managed – and can also withstand an economic downturn.

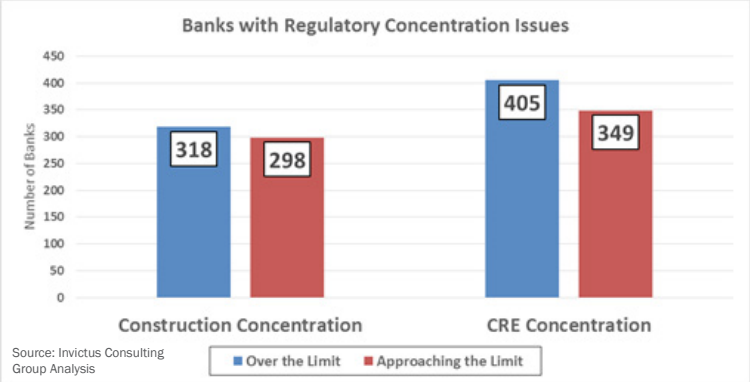
Regulators announced in December that they "will pay special attention to potential risks associated with CRE lending" in 2016.

Banks that don't have adequate risk management practices and capital strategies to quantify and manage CRE concentrations will likely be required "to raise additional capital to mitigate the risk associated with their CRE strategies or exposures," regulators advised.

Banks whose strategic plans call for an increase in CRE lending should stress test their portfolios to see if they have sufficient capital under severe economic scenarios.

The CRE warning is broad: Banks that will come under regulatory scrutiny do not need to have exceeded concentration limits. Banks must merely be contemplating an increase in CRE loans, have already increased CRE lending or "operate in markets or loan segments with increasing growth or risk fundamentals," regulators said.

Under joint regulatory guidance issued in 2006, examiners will subject a bank to increased supervision if their total reported loans for construction, land development and other land represent 100 percent or more of the bank's total risk-based capital, or total commercial real estate loans represent more than 300 percent of capital, and the outstanding balance of the CRE loan portfolio has increased by at least 50 percent during the prior 36 months.



Source: Invictus Consulting Group Analysis

Acquisitive banks should take special notice of the concentration warning. Many potential acquisitions will also result in a crossing of the 300 percent threshold, especially if they are cash-heavy transactions and are dilutive to tangible book value. There are already rumblings that the CRE focus will result in more intense regulatory scrutiny during the M&A approval process. Look for regulators to make an example of a bank or two to send a message to the market. It is highly recommended that acquiring banks be prepared to demonstrate in their regulatory application that they have the infrastructure from a capital management and risk management perspective to manage concentration risk.

Regulators emphasized in December that banks need the right strategies "to ensure capital adequacy and allowance for loan losses" that support a bank's lending strategy and are consistent with the level of CRE risk in their portfolios. The regulators advised banks to perform "market and scenario analyses" to quantify the potential impact of changing economic conditions on asset quality, earnings and capital – in other words, forward-looking capital stress tests.

Regulators noted that competitive pressures are contributing to "historically low capitalization rates and rising property values." In a downturn, those higher initial collateral values would fall. Regulators noted that the quality of CRE portfolios remained strong, based on non-performing loans and charge-off rates. Because of those "reassuring trends" in asset-quality metrics, regulators said that many banks are increasing their concentration levels. But they are also decreasing their underwriting standards, with less-restrictive loan covenants, extended maturities, longer interest-only payment periods and limited guarantor requirements.

The CRE levels are of utmost concern because post-mortem reviews of community banks that failed during the 2008 financial crisis showed similar concentrations – yet regulators did not act in time to save the banks. Congress and watchdogs will be monitoring how regulators react to an impending CRE crisis this time around.

An overlooked Government Accountability Report, which was issued in June, discussed the failure of regulators to oversee rising CRE concentrations at banks prior to the financial crisis of 2008. The 71-page report, "Lessons Learned and a Framework for Monitoring Emerging Risks and Regulatory Response," discussed how bank supervisors embraced forward-looking supervision as a solution. It revealed that the GAO would monitor how bank supervisors monitor warning signs in the future.

The GAO report offers some clues about how forward-looking bank supervision will affect banks. Regulatory staff, for instance, told the GAO that they had previously been reluctant to downgrade the management component if earnings and capital were strong, a mistake it now realized. Examiners are now directed to use the management score in the CAMELS composite to reflect a bank's underlying risks. Federal Reserve staff told the GAO that "the stress test is the best way to communicate to bank management that risks have built up and need attention, because it is data driven."

The December regulatory statement on CRE challenges outlined how banks can survive an economic downturn, even with concentrations. The regulators advised that they expect bank boards to be involved in setting proper risk management policies and procedures. Boards of directors or the appropriate board

*(**CRE Lending** continued on page 18)*

As Banks Step Away From Non-QMs, Dependable Data is Critical for Managing Loan Portfolio Risks

Written By: Amiee Ball - Deluxe Financial Services Blog

Risk-aversion is a common trait among bankers, which could explain some interesting results from the Federal Reserve's report "Community Banking in the 21st Century." The report, which surveyed nearly 1,000 community bankers in 39 states, found the majority of them stepping briskly away from nonqualified mortgages, even though they anticipated mortgages being a significant portion of their loan business.

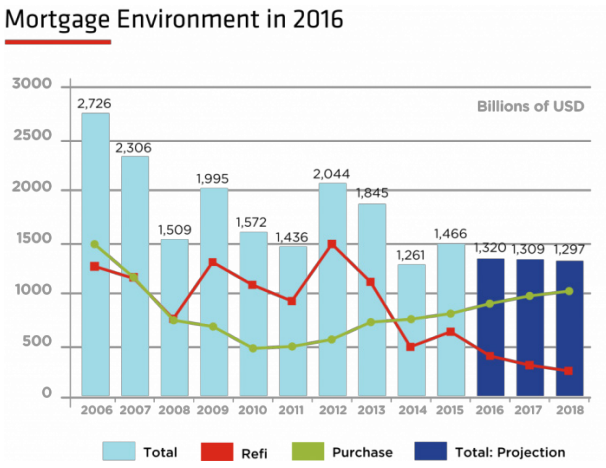
Primary Lines of Business

Asked to identify their primary lines of business and, within those lines, specific products and services, 69% of responding bankers cited one- to four-family mortgages as their primary product lines, down from 75% the year before — a proportionate drop of 8%. Only commercial lending did better, at more than 73% citing it as their primary source of loan revenue. Community banks held $502.9 billion in mortgages in 2014, and went into 2015 with nearly 35% of bankers anticipating their mortgage business would increase in the coming year, and 48% predicting it would stay the same.

Mortgage Lending: QMs vs. Non-QMs

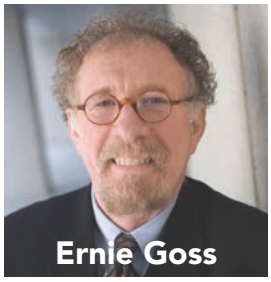
For all their enthusiasm for mortgages, however, bankers weren't equally excited about all types. Driven in part by new rules from the Consumer Financial Protection Bureau (CFPB) and regulations that bankers call confusing and burdensome, community banks perceive non-QMs to be riskier than qualified mortgages. Conservative underwriting means QMs are less likely to default, and non-QMs may not qualify for sale through or insurance by government agencies, the Fed report notes.

These factors led nearly 60% of banks responding to the Fed survey to report that non-QMs made up 10% or less of their total mortgage portfolios, with nearly 24% carrying no non-QMs at all. What's more, the majority of banks (nearly 35%) said they wouldn't be making non-QMs in the future, and nearly 33% said they would do so only on an exception basis.



Still, nearly 24% of surveyed banks said they would write non-QMs in the future. They perceive a niche opportunity emerging as other banks step away from riskier products. Regardless of whether your bank will forgo non-QMs or take the risk that comes with opportunity, it's critical to leverage technologies that can help your financial institution identify products and services that are working, and where gaps may exist.

Main Street Economic Survey



Rural Mainstreet Economy Remains Very Weak: More Than One-Third of Bankers Report Recession in Local Economy

February Survey Results at a Glance:

- For a sixth straight month, the Rural Mainstreet Index fell below growth neutral.
- Approximately 36.9 percent of bankers indicated their local economy was in a recession.
- Bank CEOs reported an average annual cash rent for farmland of $221, down by approximately 15 percent from July 2015.
- Only 2.2 percent of bankers expect a March Federal Reserve rate hike.

OMAHA, Neb. – While the Creighton University Rural Mainstreet Index rose for February, it remains weak, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, increased to 37.0 from January's 34.8.

"This is the sixth straight month the overall index has moved below growth neutral. Recent declines are the result of lower agriculture and energy commodity prices and downturns in manufacturing. Since June of last year, prices for farm products have fallen by approximately 8 percent, and fuels by roughly 22 percent," said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University'sHeider College of Business.

Only 8.7 percent of bank CEOs reported their local economy was expanding while approximately 36.9 percent indicated their local economy was in a recession.

Farming and Ranching: The farmland and ranchland price index for February climbed to 29.8 from January's 23.9. This is the 27th straight month the index has moved below growth neutral.

As in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices, with prices growing in some portions of the region. For example, Cameron Mathis with Tilden Bank in Creighton, Nebraska, reported, "I recently had two irrigated quarters of farm ground sell for $8,650 at auction."

Bank CEOs reported an average annual cash rent for farmland, excluding pastureland, of $221. This is down by approximately 15 percent from July 2015.

On the other hand, Jim Stanosheck, CEO of State Bank of Odell in Odell, Nebraska, indicated, "Irrigated cash rents moved higher."

The February farm equipment-sales index climbed to 11.3 from January's record low 7.0. "The strong U.S. dollar and global economic weakness have pushed grain prices down by 11 percent and slaughter cattle prices are 22 percent lower over the past 12 months. These weaker prices have discouraged farmers from buying additional agriculture equipment and have negatively affected the agriculture equipment dealers and manufacturers in the region," said Goss.

Banking: The February loan-volume index decreased to 48.9 from last month's 55.4. The checking-deposit index declined to 44.6 from January's 55.5, while the index for certificates of deposit and other savings instruments dipped to 39.8 from 42.3 in January.

Regarding an interest rate change at the Federal Reserve's March meetings, only 2.2 percent of the bank CEOs expect the Fed to raise rates while the remaining 97.8 percent anticipate the Fed's rate setting committee, the FOMC, to leave rates unchanged.

Jeffrey Bonnett president of the Havana National Bank in Havana, Illinois, said, "As the Fed Funds future is showing no change through the first quarter of 2018, I would not think the Fed would be doing much with interest rates. At least I do not see data to justify an increase at this time."

Hiring: Contrary to recent months, bankers reported that Rural Mainstreet businesses dropped workers from their payrolls over the last month. The hiring index decreased to 48.9 from 51.2 in January. "Weakness in the farm and energy sectors is spilling over into the broader Rural Mainstreet job market," said Goss.

Confidence: The confidence index, which reflects expectations for the economy six months out, moved slightly higher to 30.4 from 29.4 in January, indicating a very pessimistic outlook among bankers. "As in previous months, bankers see few factors pointing to improvements for the Rural Mainstreet economy," said Goss.

Home and Retail Sales: The February home-sales index jumped to a respectable 51.1 from 43.3 in January. The February retail-sales index moved to a still very weak 37.0 from 32.7 last month. "Home sales held up for the month, but rural retailers have yet to experience retail sales gains resulting from declines in fuel costs," said Goss.

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included. The survey is supported by a grant from Security State Bank in Ansley, Neb.

This survey represents an early snapshot of the economy of rural

agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

Colorado: Colorado's Rural Mainstreet Index (RMI) advanced to 43.9 in February from 37.1 in January. The farmland and ranchland price index soared to 56.1 from January's 17.2. Colorado's hiring index for February rose to 54.3 from January's 51.9.

Illinois: The February RMI for Illinois declined to 32.5 from 33.6 in January. The farmland-price index climbed to 21.2 from January's 19.9. The state's new-hiring index fell to 45.5 from last month's 49.2.

Iowa: The February RMI for Iowa advanced to 40.4 from January's 38.2. Iowa's farmland-price index for February increased to 45.9 from 36.0 in January. Iowa's new-hiring index for February dipped to 54.5 from 55.1 in January.

Kansas: The Kansas RMI for February improved to a still weak 37.5 from January's 33.9. The state's farmland-price index for February sank to 28.1 from January's 36.0. The new-hiring index for Kansas declined to 48.0 from 49.5 in January.

Minnesota: The February RMI for Minnesota jumped to 39.2 from January's 35.5. Minnesota's farmland-price index increased to 30.1 from 18.2 in January. The new-hiring index for the state inched up to 48.7 from last month's 48.6.

Missouri: The February RMI for Missouri climbed to 39.2 from 35.0 in January. The farmland-price index advanced to a still very weak 37.9 from January's 30.5. Missouri's new-hiring index declined to 51.5 from January's 53.0.

Nebraska: The Nebraska RMI for February expanded to 37.0 from 35.0 in January. The state's farmland-price index grew to 29.8 from January's 19.8. Nebraska's new-hiring index dipped to 48.6 from 49.2 in January.

North Dakota: The North Dakota RMI for February slumped to a regional low of 14.3 from January's 17.3, also a regional low. The farmland-price index rose to 15.6 from 11.2 in January. North Dakota's new-hiring index declined to 11.8 from January's 21.3.

South Dakota: The February RMI for South Dakota increased to 40.3 from 39.0 in January. The farmland-price index rose to 48.9 from 43.0 in January. South Dakota's new-hiring index fell to solid 55.6 from January's 57.6.

Wyoming: The February RMI for Wyoming slipped to 32.1 from January's 32.9. The February farmland and ranchland-price index plunged to 14.6 from 18.7 in January. Wyoming's new-hiring index slumped to 43.1 from January's 48.7.

Tables 1 & 2 summarize survey findings

Next month's survey results will be released on the third Thursday of the month, March 18.

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

	Feb. 2015	Jan. 2016	Feb. 2016
Area economic index	46.4	34.8	37.0
Loan volume	46.4	55.4	48.9
Checking deposits	57.3	55.5	44.6
Certificates of deposit and savings instruments	41.8	42.3	39.8
Farmland prices	39.4	23.9	29.8
Farm equipment sales	19.5	7.0	11.3
Home sales	50.9	43.3	51.1
Hiring	56.5	51.2	48.9
Retail business	43.7	32.7	37.0
Confidence index (area economy six months out)	41.5	29.4	30.4

Table 2: The Rural Mainstreet Economy, February 2016

	Percentage of bankers reporting				
	A Recession	A modest Economic Downturn	Little or no Economic Growth	A modest Economic Upturn	Strong Economic Growth
How would you describe the economy in your area?	6.5%	30.4%	54.3%	8.7%	0.0%
	Take No Action	Raise rates By 1/4%	Reduce rates		
At the March 2016 meeting of the interest rate setting committee, you expect the Federal Reserve to:	97.8%	2.2%	0.0%		
	Below - $100	$100 - $199	$200 - $299	$300 - $399	
What is the average annual cash rent per acre for cropland (not pasture) in your area?	11.0%	17.8%	60.0%	11.2%	

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

For historical data and forecasts, visit: www2.creighton.edu/business/economicoutlook

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Navigating the Future

45th Management Conference & Annual Convention

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Save the dates for CBI's 45th Management Conference and Annual Convention, coming in July to Okoboji, Iowa! At this year's meeting Iowa's community bankers will be "Navigating the Future", reinforcing a continued commitment to the support of the communities they serve.

Scheduled General Session speakers include new ICBA Chairman Rebecca Romero-Rainey, economist Peter Ricchiuti, political journalist Stephen Hayes, and motivational speaker Mack Dryden. Breakout sessions speakers include the popular Regulators' Panel, economist Ernie Goss, and Howard Hagen from Dickinson Law.

Registration for the Convention will open later this Spring--visit cbiaonline.org for more info. Attendance at the 45th Annual Convention is open only to CBI Members. If you'd like to discuss becoming a CBI member, call us at 515-453-1495 or email cbia@cbiaonline.org.

*(**CRE Lending** continued from page 14)*

committee must approve concentration limits and review credit risk management practices and underwriting standards.

Successful banks also:

- Conducted global cash flow analyses based on reasonable assumptions of rent and other items to ensure borrowers could repay their loans;
- Performed stress testing of their CRE loan portfolios to quantify the impact of changing conditions on asset quality, earnings and capital;
- Had lending strategies and limits for concentrations, as well as a method to assess whether those strategies would work in different market conditions;
- Gave boards adequate reports on those lending strategies so they could assess how they would change in a downturn;
- Continued to monitor a borrower's ability to service debt as loans converted from interest-only to amortizing payments, or as interest rates rose;
- Implemented procedures to monitor the volatility in supply and demand for CRE during business cycles;
- Maintained management information systems that gave the board and management enough information to identify, measure, monitor and manage concentration risk;
- Had processes to review appraisal reports to support appropriate market value conclusions.

Lisa Getter is Director of Communications and Marketing at Invictus Consulting Group. For more information on CBI Affiliate Member Invictus Consulting, visit invictusgrp.com.

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Community Bank Balance Sheet Case Study

▲ 30%

NIM Improvement

additional case studies on the reverse

Balance Sheet Goals

- Protect current income
- Increase future income
- Reduce overall Interest Rate Risk

Balance Sheet Strategies

- Hedged deposit costs & added long duration fixed rate wholesale funding to protect against rising rates & runoff
- Replaced low relative value securities with floating munis & SBAs
- Sold long duration loans & bank started offering fixed/floating loans to borrowers

Balance Sheet Impact

- Reduced +300 EVE risk by 40%
- Improved +300 EAR by 80% & NIM 30%
- Income neutral (accretive +300)
- 12 month breakeven on onetime loss