MAY/JUNE 2018

OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS OF IOWA

the COMMUNITY BANKER UPDATE

MAY/JUNE

COMMUNITY BANKERS OF IOWA'S 47TH ANNUAL CONVENTION

DON'T STOP BELIEVING...

IT'S A JOURNEY

2018 TOUR OKOBOJI IOWA

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COMMUNITY BANKERS OF IOWA'S 47TH ANNUAL CONVENTION

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2018 TOUR OKOBOJI IOWA

Join Us at CBI's 47th Annual Convention

REGISTRATION IS NOW OPEN!

JULY 18-20

Since 1972 CBI has continually supported and defended Iowa's community banks, assisting in the ongoing journey of serving their local communities. CBI provides double-platinum education programs, goes on-record by advocating for community bankers on critical issues, and offers products and services that serve as valuable supporting acts to your bank's operations. The CBI Management Conference and Annual Convention is the premier event of the summer. It brings Iowa's community bankers in concert to learn both from each other and from industry experts.

Guest speakers at the 47th Annual Convention include business adviser **Ken Rutkowski**, White House correspondent and Iowa native **Jennifer Jacobs**, keynote speaker **Commander Kirk Lippold (US Navy - Ret.)**, and ICBA Vice-Chairman **Noah Wilcox**. You can also get a sneak peak at a local Iowa business at the Town Hall Breakfast, this year featuring Grand View Beef owners **Knute & Amanda Severson**. Great breakout sessions are all panel format this year. On the stage are the ever-popular **Regulators' Panel**, **Economic Development Panel**, and the **Payments Fraud Panel** with **Julie Hanson**, SVP - Card & Payments with ICBA Bancard, and **Ben Hayden**, IT & Risk Consultant and **Liz Little**, Fraud Consultant, both with SHAZAM Network.

Meet up with old friends and new at the **Kickoff Reception**, on the lake during the **14th Annual Catch and Release Fishing Tournament**, and on the golf course during the **Mixed Pair** and **Bankers' Golf Tournaments**. The **5K Run/Walk** will be held again this year as well. When you register to attend the Convention, **make sure to provide your size** to receive a commemorative 5K Run/Walk t-shirt.

Get more time to network with peers and check out the latest products and services during the **Gala** and **Tradeshow**. This year we're doing things a little differently. There will be no Auction, but you can **play the Paddles Up! Game** for a chance to win $500 cash, or purchase raffle tickets for other great prizes. Being held to benefit the CBI Education Foundation, donations are tax-deductible and **both personal AND corporate donations can be accepted**. Donations will be collected with on-site ticket sales. *PLEASE DO NOT SEND CASH TO CBI.*

If you would like to make a tax-deductible cash donation directly to the CBI Education Foundation, email klee@cbiaonline.org, send checks payable to CBI Education Foundation to: 521 E. Locust St, Suite 202, Des Moines, IA 50309, or bring your donation check to the Registration Desk during the Convention. Cash donations will be applied directly to the Foundation and will not be used to purchase prizes or other items for the Convention.

Additional information and registration is available online at cbiaonline.org. Call at 515.453.1495 with questions. Join us front-row at the premier event of the summer--tickets on sale now! ■

Refer to the 47th Annual Convention Event Guide for detailed info.

GUEST SPEAKER LINEUP

General Session Speakers

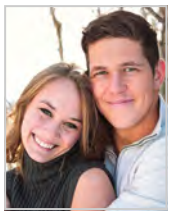
Ken Rutkowski

Jennifer Jacobs

Noah Wilcox

Cmdr. Kirk Lippold

Town Hall Breakfast



Knute & Amanda Severson

Regulators' Panel

James LaPierre

Jeff Jensen

Ron Hansen

Economic Development Panel

Sandy Ehrig

Jim Thompson

Tricia Janes

Payments Fraud Panel

Julie Hanson

Ben Hayden

Liz Little

CBI Education Foundation

Consider Making an Investment in Iowa's Future

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

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

Major programs funded by the CBI Education Foundation include:

- Money Smart Week Elementary Poster Contest
- Community Bankers Summer Intern Scholarship Program
- Leaders of Tomorrow (LOT) Scholarship Program
- LOT Up & Coming Banker of the Year Award
- Ongoing educational opportunities for bankers and prospective bankers across Iowa.

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

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

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

Click here for more information or to download the Brochure and Donation Form.

MONEY SMART WEEK®

APRIL 21-28, 2018 | IOWA

2018 Money Smart Week Poster Contest

Winners Selected Among Over 1,500 Entries!

The 2018 Money Smart Week Poster Contest winners have been chosen!

First Place: Vivienne Rahe, 2nd Grade, submitted by Fidelity Bank & Trust in Dyersville.

Second Place: Claire Wubbena, 5th Grade, submitted by Federation Bank in Washington, IA.

Third Place: Laura Ross, 6th Grade, submitted by Northwest Bank in Spencer.

Honorable Mention: Joe McCleary, 5th Grade, submitted by Federation Bank in Washington, IA. *See his poster design.*

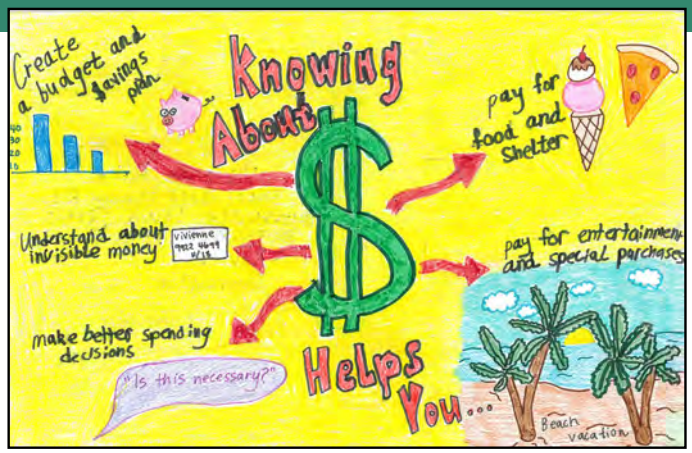
The First Place winner was awarded a $600 CD, with Second and Third prizes each receiving a $300 CD. To enter the Money Smart Week Poster Contest, Iowa elementary students in 2nd through 6th grades submitted over 1,500 poster designs to participating community banks across Iowa, who then submitted the posters they received to CBI. Posters were designed to answer the question: "Why is it important to know about money?" Final judging took place at the CBI office, and the top three all-Iowa prize winners were chosen. Designs were evaluated on overall message, creativity, and workmanship.

Students were presented with awards during special ceremonies at their local schools by teachers and school officials, and by executives from the community banks that submitted the prize-winning entries to CBI. While the Money Smart Week Poster Contest is a state-wide competition, many community banks sponsor local contests in their communities as well. Lucky winning students were awarded prizes like Kindle e-Readers and goodie bags full of treats and gift cards.

Since 1999, Community Bankers of Iowa has hosted the Money Smart Week Poster Contest as part of April's Community Banking Month festivities, and the Money Smart Week awareness campaign hosted by the Federal Reserve Bank of Chicago to increase financial literacy among children. This year, Money Smart Week events were held the week of April 21-28. For more information on Money Smart Week, visit moneysmartweek.org.

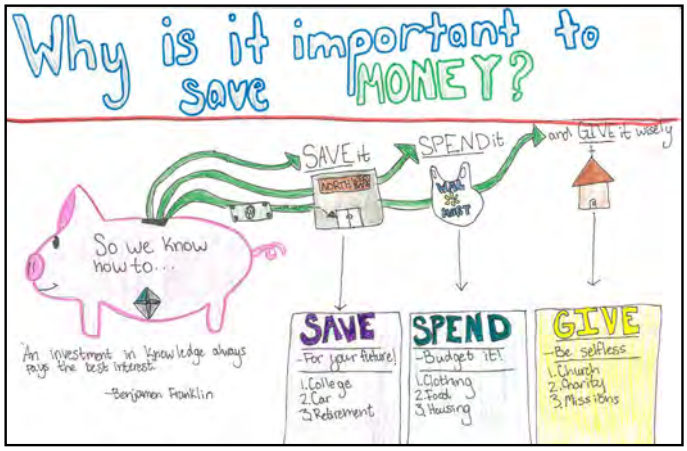
If you have any questions about the Money Smart Week Poster Contest, please call the CBI office at 515.453.1495 or email Krissy Lee at klee@cbiaonline.org.

Congratulations to the winners, and a BIG thank you to all of the community banks and schools throughout Iowa that participated in this year's Poster Contest and promoted financial literacy in your communities. See you again next year! ■



First Place Poster by Vivienne Rahe, 2nd Grade, of Xavier Elementary in Dyersville.

Second Place Poster by Claire Wubbena, 5th Grade, of Lincoln Elementary in Washington, Iowa.



Third Place Poster by Laura Ross, 6th Grade, of Sioux Center Elementary in Sioux Center.

Click the poster images to view larger.

First Place Winner Vivienne Rahe receiving her award from Fidelity Bank & Trust employees. Pictured L-R: Randy Ludwig - Market President, Tiffany Wulfekuhle - Customer Service Rep, Vicki Rahe, Vivienne, Andy Rahe, Joan Steger - Assistant Vice President of Retail. Click photo to view larger.

Poster contest entries poured in from all over Iowa, and local community banks displayed them in their branches during Money Smart Week. Pictured above are some of Fairfax State Savings Bank's submissions.

CBI Hall of Fame Member Spotlight:

Helping Community Banks Serve Their Communities

CBI Associate Member and 2018 Hall of Fame Sponsor Federal Home Loan Bank of Des Moines (FHLB) provides funding and liquidity for the Bank's members and housing associates so that they can meet the housing, economic development and business needs of the communities they serve. Through partnerships with FHLB Des Moines members and community housing partners, the Bank has also awarded more than $56 million in grants to support affordable housing opportunities for nearly 15,000 families in the state of Iowa.

FHLB Des Moines members benefit from access to a variety of products and services designed to help lower their funding costs, mitigate risk, improve asset and liability management and meet community credit needs. In addition, FHLB Des Moines contributes 10 percent of its net income each year to affordable housing programs. Grants are awarded to help meet the housing needs of low- to moderate-income individuals and families. The use of these funds also positively impacts job growth and economic development throughout the FHLB Des Moines district.

Every year FHLB Des Moines highlights the work their members do by awarding the Strong Communities Award to deserving projects. The award demonstrates the value that communities throughout the FHLB Des Moines district derive from small business and economic development projects. Six CBI Member banks have been finalists for this coveted award.

According to FHLB, supporting Community Bankers of Iowa is important because of the ability to reach a lot of FHLB Des Moines members. CBI provides them with many benefits such as effectively promoting and protecting FHLB's interests, representing the institution in state legislative affairs, and providing numerous educational opportunities that are extremely useful to the independent community banker.

For more information on CBI Associate Member Federal Home Loan Bank of Des Moines contact Lisa Cole at (800) 544.3452 Ext. 3426 or lcole@fhlbdm.com.

CBI thanks Federal Home Loan Bank of Des Moines for it's continued support! ■

THANK YOU FEDERAL HOME LOAN BANK OF DES MOINES

2018 CBI Hall of Fame Sponsor and Platinum Sponsor of the 47th Annual Convention! See page 4, or visit cbiaonline.org for Convention details.

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Your Resource to Find Industry Presenters for Your Seminars and Events

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

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

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

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

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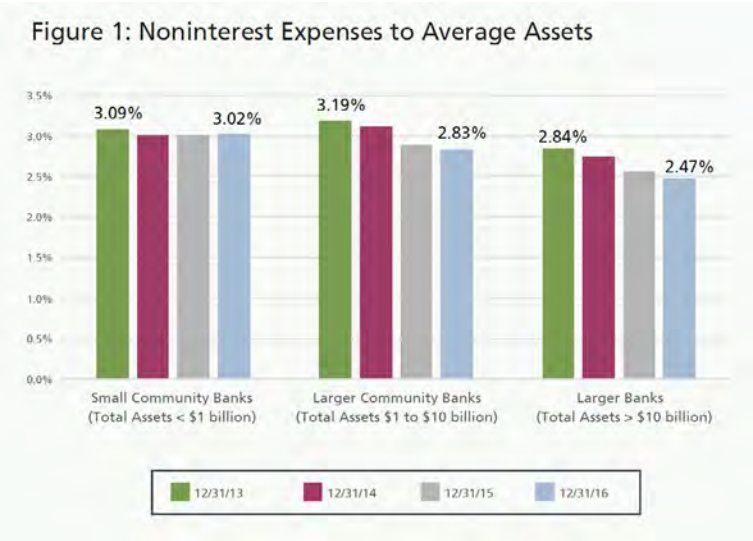
Banks Are Becoming More Efficient — Is That Good or Bad?

by Wallace Young, Director, Risk Coordination Unit, and
Alex Lightfoot, Senior Risk Specialist, Federal Reserve Bank of San Francisco

Although the extended low interest rate environment has made it challenging for many banks to improve profitability, net income in the banking industry is rising, largely because of efficiency gains. At many banks across the nation, overhead expenses (otherwise known as noninterest expenses) are increasing but at a much slower pace than total assets. For example, average noninterest expenses as a percentage of average assets at small community banks across the nation (those with total assets below $1 billion) have slowly declined from 3.09 percent at December 31, 2013, to 3.02 percent at December 31, 2016, a drop of 7 basis points (Figure 1). For larger banks, the decline is much more noticeable; since year-end 2013, noninterest expenses as a percentage of average assets have declined 36 basis points at larger community banks (with total assets between $1 billion and $10 billion) and 37 basis points at banks with assets above $10 billion.[1]



These declines may not seem that significant, but over this same period, return on average assets (ROAA) at banks across the nation has actually decreased slightly by 5 basis points, as net interest margins (NIMs), net interest income as a percentage of average assets, have hovered in a very tight range for most institutions. In this low interest rate environment, banks face challenges to further improve core earnings; therefore, even a modest reduction in overhead expenses will likely have a material impact on a bank's profitability.

The fact that the industry is operating more efficiently is a positive development. However, it is somewhat surprising that some banks are able to boost efficiency at a time when operating and information security costs are reportedly rising, which raises the following question: Can a bank be too efficient? Some minimal level of overhead is necessary to ensure that the institution is devoting sufficient resources to all the various operations across the organization, including its administrative, human resources, compliance, and audit functions.

With this in mind, this article explores the improving efficiency trend to uncover some ways that banks are becoming more efficient and highlights a number of issues that bank management teams should consider as they balance a desire to operate more efficiently against the need to devote appropriate resources to all functions in the organization.

Why (and How) Are Banks Becoming More Efficient?

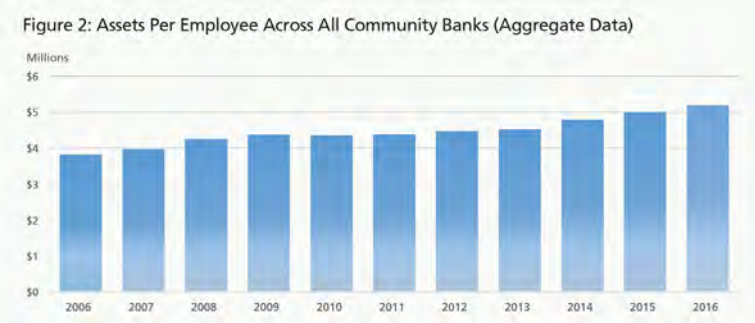
The motivation to improve efficiency is not unique to the banking industry. Most companies are regularly looking for ways to operate more efficiently, as more efficient businesses are often more profitable and better positioned to generate higher returns for their owners. More often than not, technological advancements enable businesses to operate more efficiently. Certainly, the banking industry has seen numerous technological advancements over the past several decades, such as the advent of the computer itself, the invention of the automated teller machine (ATM), the evolution in electronic payments, and the proliferation of online banking. Many of these technological advancements not only make banking more convenient for the consumer, but they also allow banks to build a much larger organization with relatively fewer staff, branches, and support offices. For example, over the past several years, a big shift has been seen in how customers interact with their banks. Although many bank customers may not want to see their local branches close, most are less inclined to visit a bank branch to conduct banking activities. As a result, banks need fewer branches and, correspondingly, fewer employees and physical assets such as copy machines, file cabinets, and office furniture. In fact, the number of bank branches in the U.S. has declined by 6 percent since 2009, and there is speculation that banks can do even more trimming as customers continue to embrace online and mobile banking services.[2]

In the meantime, as credit quality across the industry continues to improve, there are fewer problem assets that need to be worked out. This has led to a natural decline in operating expenses (e.g., legal expenses), as fewer problem assets mean that there is less need to engage legal counsel to assist with document review and various legal filings. Also, over the past several years, there have been advancements in risk management techniques that have helped management teams manage even larger and more complex organizations. For example, advancements in data analytics allow bank management teams to develop and analyze increasing amounts of data, which result in the need for fewer staff or management to oversee the staff.

So, there are several reasons to explain why banks are becoming more efficient; however, it is also possible that bank management teams are more inclined to seek out improvements in efficiency as a way to boost net income during this extended period of very low interest rates. Despite robust loan growth over the past several years, bank management teams have found it difficult to improve NIMs and may face increased pressure to reduce operating expenses.

Whatever the motivation, many institutions are seeking outright

cuts to employee count, while others are tightly controlling personnel and other operating expenses to lag asset growth. One measure that highlights this trend is the growth in overhead expenses against asset growth. This can be highlighted in the continuously rising number of assets per employee (Figure 2). Closely managing employee count appears to be a common (and even obvious) method for improving efficiency, but asking staff to do more with less puts additional pressure on bank staff. Meanwhile, bank management teams become more reliant on relatively fewer staff to perform day-to-day activities and to ensure proper internal controls are followed.



To What Extent Is Improving Efficiency Leading to Stronger Net Income?

After several years of consistent improvement, net income (as measured by pretax ROAA) at all community banks has slowed to varying degrees. At small community banks, pretax ROAA has increased from 1.09 percent at year-end 2013 to 1.28 percent at year-end 2016. However, at larger community banks, ROAA has actually declined nominally, from 1.54 percent to 1.51 percent over this same period. Meanwhile, over this period, NIMs actually declined for both groups of community banks, from 3.69 percent to 3.66 percent at small community banks and from 4.00 percent to 3.61 percent at larger community banks.[3]

Therefore, the improvement in pretax ROAA over this period was not driven by improvement in core earnings. Instead, the stronger earnings performance at these banks was due to lower credit-related costs (provisions for loan and lease losses) and/or operating expenses (noninterest expenses). Provisions for loan and lease losses declined modestly at small community banks, from 0.18 percent of average assets at year-end 2013 to 0.13 percent at year-end 2016. Provisions for loan and lease losses increased slightly at banks with total assets of $1 billion to $10 billion, from 0.21 percent at year-end 2013 to 0.26 percent at year-end 2016. However, noninterest expenses declined more significantly over this period, particularly for larger community banks. As previously mentioned, at small community banks, the decline in noninterest expenses over this period equaled 7 basis points, but it was much more meaningful at the larger community banks (36 basis points), indicating that net income, particularly at larger banks, was driven primarily by a decrease in operating expenses.[4]

What Concerns Arise When Banks Become More Efficient?

While there are several benefits to banks becoming more efficient, a strategic decision to make an organization more efficient, if not managed appropriately, could hurt the financial health of the institution in the long run. If bank management chooses to improve efficiency by cutting staff or limiting the growth in employee count as the balance sheet grows, it may quickly encounter internal control challenges or other operational breakdowns. For instance, if resources in the bank's internal loan review department do not increase in line with loan growth, internal loan review staff could quickly become overwhelmed, and a previously effective operation could become ineffective.

One common metric that is used to measure and monitor an institution's overall efficiency is the efficiency ratio (total noninterest expenses divided by the sum of noninterest and net interest income). The lower this ratio, the more efficient the organization is when compared with other institutions. Concerns arise when a low efficiency ratio is driven by the numerator rather than the denominator. Put differently, a low efficiency ratio that is the result of declining and/or lower overhead expense (the numerator) will be viewed with more concern by regulatory authorities than a low ratio that is the result of relatively larger levels of noninterest or net interest income (the denominator).

Over the past several years, the overall efficiency ratio for the banking industry actually has not moved much. However, there does appear to be a widening range of ratios, and there is a pronounced decline in efficiency ratios for banks in certain markets. For example, for banks in the Federal Reserve's Twelfth District, the aggregate efficiency ratio of 56 percent is nearly 5.5 percentage points lower than the aggregate efficiency ratio for all banks nationwide. Moreover, there are several institutions in the Twelfth District that now have extremely low efficiency ratios, with some still moving downward and approaching the 40 percent level.[5] Further, many of these ratios are indeed driven by lower overhead expenses, which could draw some regulatory attention, particularly if these same institutions also have internal audit or other internal control deficiencies. In fact, in the Twelfth District, there has been a rise in the number of banks that have internal audit program deficiencies.

What Could Go Wrong?

One institution that was experiencing significant asset growth soon found that its Bank Secrecy Act (BSA) compliance team was overworked and too thinly staffed to ensure its BSA compliance program was working appropriately. The bank, which previously had a satisfactory BSA compliance program, learned that it was no longer in full compliance with the BSA. The management team was slow to recognize that as the institution quickly grew so too

(***Banks Are Becoming More Efficient*** *continued on page 12*)

(***Banks Are Becoming More Efficient*** *continued from page 11*)

did its BSA risk profile. This unanticipated development required the institution's management team to quickly shift gears, slow down its expansionary plans, and focus on hiring additional BSA staff to address the backlog of work and implement the program enhancements necessary to ensure that the program was appropriately scaled to handle the increased risk profile.

What Should Bank Management Teams Keep in Mind?

In the current low interest rate environment, it is especially important that bank management teams pay particular attention to operating expenses and promote efficient operations. However, short-term profits should not come at the expense of long-term viability. Bank management teams also need to ensure that the institution is appropriately staffed and that sufficient resources are in place to effectively manage all areas of the institution's operations. As an institution grows in size and complexity, it will naturally require more resources to manage increasing risks. The difficult part of the process is determining just how many additional resources are necessary. With that in mind, as bank management teams focus attention on increasing profits, they should consider the following:

- **Incorporate staffing and resource needs into the strategic planning process.** Boards of directors and bank management teams at most banks already develop an annual strategic plan that is used to guide their organizations' operations. The strategic planning process used by a bank is going to vary widely given the bank's size, complexity, and type of operations, but often these plans are developed by simply incorporating new growth targets for the bank's various lines of business and areas of operations. On the expense side, very high-level targets will often be established (e.g., "personnel expense will grow 5 percent over the next 12 months" or "personnel expense will decline 5 percent"). While there may be some good rationale for determining these growth rates, it is still a top-down approach, and it may not be clear whether that specific level of personnel expense is appropriate for the bank's business model and type of operations.
- **Incorporate efficiency metrics into peer analysis.** Similarly, most bank management teams already conduct some form of peer analysis to see how their bank's performance compares with that of a designated peer group. This peer analysis should incorporate efficiency metrics. Peer analysis is useful; it can help management teams identify areas in which the bank is performing not as well as or much better than its peers. Efficiency metrics such as the efficiency ratio, overhead expense to average assets, and average personnel expense per employee (all of which are available in the Federal Financial Institutions Examination Council Uniform Bank Performance Report[6]) can show how the bank is financing its operations relative to its peers. Operating expenses that are substantially lower than those of its peers (factoring in variances in business models) should be viewed as a red flag and investigated by the management team.
- **Monitor root causes of operational breakdowns.** From time to time, even the best-run organization will have some breakdown in its operations, internal controls, or compliance programs, and even the best organization will receive an occasional adverse audit finding. These things happen despite the best intentions and sound risk management programs. As gaps are identified, bank management teams should focus their attention on root causes. When the root causes point to a theme of inadequate staffing, resources, or expertise in different areas of bank operations, this could be a signal that the bank is not devoting sufficient resources to its various operational functions.

Bringing It Home

To close, it is important to reinforce the point that efficiency is good. Any organization will be more successful if it closely manages its growth and expenses. On that note, management teams should not be so focused on profitability metrics that they forget about the need to maintain appropriate internal controls, audit functions, and compliance programs, especially as the institution grows in size, complexity, and/or risk profile. At times, it may be totally appropriate to make some tough decisions and sacrifice current income for long-term profitability to staff-up an important operational function in order to better position the institution to manage its risk for the long term. ■

Notes

1 The data were obtained from the aggregate reports developed by the Surveillance staff at the Board of Governors of the Federal Reserve System using the Consolidated Reports of Condition and Income (Call Report).

2 Dan Freed, "Bank Customers Don't Want Their Local Branches to Close," Money Magazine, August 22, 2016.

3 Data obtained from the Call Report.

4 Data obtained from the Call Report.

5 Data obtained from the Call Report.

6 See the Uniform Bank Performance Report, available here.

The Dawn of Artificial Intelligence

Written By: Tina Giorgio
President & CEO
ICBA Bancard

I just returned from the spring Finovate conference in Santa Clara, California. If you've never been to Finovate I would describe the event as speed dating with fintech companies. To cut through the clutter (and some of the hype!) presenters are put through a rigorous application process and if selected are given only seven minutes to provide a live demo of their product offerings. Over the two-day conference, 70 fintech companies showcased the very latest in financial technology innovations. Recurring themes were the power of data (data analytics) and the evolution of artificial intelligence (AI).

The power of big data is a concept that we are familiar with however I think we are only now just beginning to realize the potential of AI. With so many possible applications, it's hard to predict the path that AI will follow, but we can, and should, examine present-day use cases to see where things are heading.

Finance

- Loans - AI is used to expedite loan applications and determine the right loan to apply for.
- Chatbots - A chatbot is a computer program designed to simulate simple conversations with humans over the Internet. Chatbots are being used for password resets and account inquiries.

E-Commerce

- Personal Shoppers - AI is used to help online shoppers find the perfect product.
- Optimization - Websites and search engines are using AI for things like product placement and recommendations.

Health Care

- Diagnosis - I already mentioned how AI is being used to diagnose cancer. It is also being used to identify sepsis in ICU patients before they show any symptoms, reducing fatality rates.
- Test Results - AI can analyze things like lab results, MRIs, cat scans, and x-rays faster and more accurately than humans.

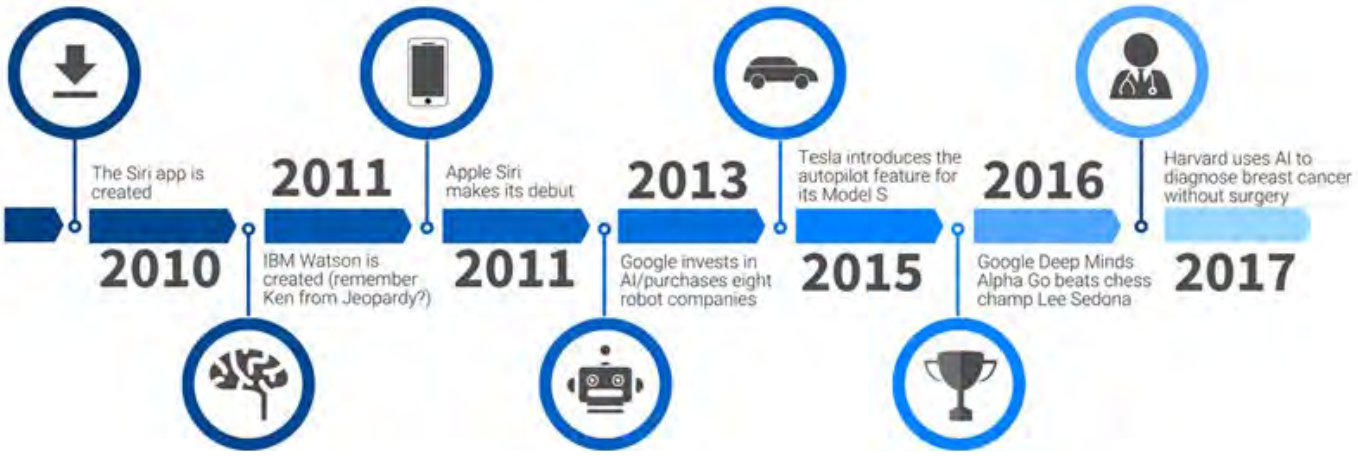
Agriculture

- Grow Boxes - AI is being used to grow disease-free crops that are nearly perfect by measuring and controlling light, temperature, and moisture.
- Crop Health and Harvesting - AI can identify weeds, deficiencies in soil, plant disease, and optimal harvest times. AI robots are used to spray the weeds, treat diseased plants, and pick the crops.

A growing number of industries are using AI and big data to do things faster with more accuracy and at lower costs. We are already seeing the deployment of chatbots and self-service technologies as a means of freeing up front line/call center staff from routine support requests.

In this dawning era of artificial intelligence, community banks will have many choices about how they deploy this new technology. Some banks will no doubt eschew bots and digital lending in favor of decisions made by real-life human beings, but others will opt for service that is always on. Either way, there will be an opportunity for community banks to differentiate themselves by offering the digital experience that best suits the expectations and needs of their customers, coupled with the unparalleled customer service and quality financial products for which community banks are known. ■

Tina Giorgio is president and CEO of ICBA Bancard and can be reached at 800-242-0770 or tina.giorgio@icba.org.



Let CBI help you plot your bank's future with our new
Community Bank Strategic Planning Service

CBI has developed a new service to benefit community banks in implementing their visions for the future. The Community Bank Strategic Planning Service works to provide your community bank with top level expertise to create a viable strategic plan that you can count on. Our team has over 45 years of experience in the banking industry and can provide comprehensive guidance throughout the entire process. The end product is tailored to your community bank's exact needs. We gather data and transform it into a strategy that can assist you in ensuring your bank's future success.

"We have had numerous strategic planning sessions and in most cases used an outside facilitator" said Steve Brady, President & CEO at Community Savings Bank in Edgewood. "CBI was very responsive to our process and easy to work with. The price was very reasonable as well."

The Community Bank Strategic Planning Service is facilitated by Dale Torpey, Chairman of Washington Bancorp and Federation Bank in Washington, IA, and Jackie Haley, CBI's Vice President of Services and Strategic Partnerships. "Jackie and Dale provided a well-defined plan in working with [our] management team, employees and board of directors" said Tim Wolf, President & CEO of State Savings Bank in West Des Moines. "The follow-up with the management team and directors was very timely...with task implementation reports that assigned responsibilities and timelines for each objective."

For more information on the Community Bank Strategic Planning Service, contact Jackie Haley at 515-975-8727 or jhaley@cbiaonline.org, or call the CBI office at 515-453-1495. ■

Click the image to download a brochure containing more information on CBI's Community Bank Strategic Planning Service.

Welcome New CBI Members!

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

Financial Systems Corp.
Genesis10
Harland Technology Services
Modern Banking Systems
Purple Wave Auction
Windsor Mortgage Solutions

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.

China Tariffs: Is a Trade War Imminent?

Written By: J. Marc Ward
Shareholder
Fredrikson & Byron P.A.

Fredrikson & BYRON, P.A.

Throughout the past several months, concerns about a U.S. trade war with China have been escalating, fueled by a back-and-forth exchange of tariff threats by the Trump administration and Chinese President Xi Jinping. On Thursday, May 31, Bob Oberlies, Chair of Fredrikson & Byron's China Practice, spoke at the Community Bankers of Iowa Ag Conference on the issue. In his talk, Oberlies reviewed the history of trade relations between the two countries and the implications of recent tensions and discussed steps both sides can take to ward off a full on trade war.

Over the past year, we have seen a gradual rise in trade threats and actions in the bilateral relationship. In April 2017, President Trump announced his plan to investigate imports from China and other nations, following up on a campaign promise to be tough on trade. In August 2017, the Trump administration focused on what it considered to be unfair Chinese trade practices concerning "theft" of U.S. intellectual property. In March 2018, the administration imposed heightened tariffs on steel imports. On May 29, the U.S. stated that it will move ahead with its tariffs targeting Chinese goods. China responded, "We want to reiterate that we don't want a trade war, but we aren't afraid of fighting one."

According to Oberlies, many longtime observers are concerned about the tactics being employed by both governments, which seem to only be exacerbating trade tensions. Oberlies stated that while it is essential to find a balanced trade relationship with China for the long term that is fair for the two countries, both sides need to put the threat of sanctions on hold and focus on constructive negotiations to resolve these important issues. Tariffs and restrictions on commerce will not help U.S. companies and will negatively impact the economy and jobs.

Oberlies questioned whether either country is using the right strategy in addressing these issues. And it is important that we ask our leadership to ensure that this level of engagement with China on rebalancing the trading relationship and evening the playing field for U.S. companies in China does not come at the expense of opportunities for U.S. businesses.

There is hope that trade tensions between the U.S. and China will be eased by President Xi Jinping's promise to open China's markets wider to foreign competition this year. However, it is unclear how quickly this will happen and whether market liberalization efforts that Beijing has planned will be broad enough and come soon enough to mitigate the current tensions. Oberlies' opinion is that any reform for foreign investment will be gradual, and it will be aligned with China's three core policy priorities, which include reducing its debt problem, the disparity between the rich and the poor, and the environment.

China exports are very important to Iowa's economy. One third of Iowa soybeans are exported to China, and Iowa exported $11 billion worth of agricultural product last year. Iowa banks with agriculture loans supported by cash flow may see farmers hard-pressed to make payments if threatened tariffs are imposed. ■

Marc Ward is a shareholder at CBI Affiliate Member Fredrikson & Byron, P.A. and specializes in Banking & Finance, Corporate Governance, Mergers & Acquisitions, and Securities. He can be reached at 515.242.8901 or mward@fredlaw.com.

From the Top

Written By: Timothy Zimmerman, Chairman of ICBA

Accounting is a passion of mine. I majored in it, became a CPA and worked for KPMG before becoming a community banker. While it might not be everyone's cup of tea, accounting is of the utmost importance as the new Current Expected Credit Loss (CECL) standard bears down on us. The community bank deadline for adopting the FASB's new methodology might seem far away, but you should be preparing now.

The CECL standard requires entities to include a provision for future credit losses as they compute their allowance for loan losses. It begins taking effect in 2020, but for most community banks, the big day is Dec. 31, 2021, when implementation starts for non-public community banks that aren't registered with the SEC. While that might feel like a lot of time, it will pass quickly. We need to work now to ensure a smooth transition.

Community banks should be preparing to add a forward-looking component to their allowance-for-loss calculation, and we should be discussing the new system with independent auditors to confirm agreement with the planned calculation. New information will be required for footnote disclosures in financial statements, so we need to extract it from our data-processing and core systems, and arrange it in the proper format. And we need to ensure our employees are prepared to gather and retain the data we'll use to build and test models that work for us. Establishing and evaluating these processes will take time, so we can't start too early.

ICBA and community bankers worked with the FASB and the banking regulators for years to make significant improvements to the CECL standard originally proposed in 2011. The rules are now more flexible and scalable, and will allow community banks to continue using their personal understanding of their local markets—instead of complex modeling systems—to determine their loan-loss reserves.

Allowing community banks to evaluate and adjust their loan-loss amounts using qualitative factors, historical losses and current systems has been essential to preserving the community banking model itself. As originally proposed, the CECL model would have superimposed a one-size-fits-all approach designed for homogeneous pools of commoditized loan products.

"The community bank deadline for adopting the FASB's new methodology might seem far away, but you should be preparing now."

Community bankers made a lot of progress in helping to improve the standard, but we still have our work cut out for us to be ready for the 2021 launch. Accounting might not be a labor of love for everybody, but we can't wait until the last minute to put in the work to implement the standard. ■

Timothy Zimmerman is CEO of Standard Bank in Monroeville, PA.

Flourish

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

I'm wrote this column on May 9—an important date in ICBA's history. It's 88 years to the day when 28 independent community bankers met in Glenwood, Minn., to discuss an alarming trend. Two Minneapolis-based holding companies were rapidly buying up unit banks, with an officer of one holding company reportedly stating there wouldn't be an independent bank left in the ninth Federal Reserve District within three years. The holding companies wielded such power as correspondent banks that some bankers were afraid to be individually identified as opponents.

And so, they passed around a hat—all putting $25 into it—allowing for the birth of ICBA, an independent banking organization that would represent the interest of only community banks.

Staunchly independent and fiercely dedicated to the community bank mission, these 28 community bankers knew they needed to fight back. If they did nothing, the future of their banks and communities would hang in the balance.

Fast forward 88 years and there are nearly 5,700 community banks across the country, serving the unique needs of their customers and communities. It's all thanks to those community bankers who stood up for their convictions in a big way.

I couldn't help but be reminded of these 28 bankers who had a big idea when it was needed the most. That's why I challenge today's community bankers to think the same way. Where many see challenges, we need to see big opportunities.

Whether it's through partnering with financial technology companies, finding ways to level the playing field for community banks or finding solutions to spur de novo formation, community bankers are there, advocating, innovating and educating. S.2155's positive momentum in both the Senate and the House is the latest example of what can happen when we community bankers come together and make our voices heard.

"Where many see challenges, we need to see big opportunities."

While we may not be passing around a hat these days, we at ICBA are always passing around big ideas for community bank growth and opportunity. We have your back, helping you drive change with policymakers, spur a culture of innovation at your bank, provide time- and money-saving products and services, and foster future industry leaders.

The possibilities for community banks are endless. We must seize every opportunity to drive prosperity for our customers and communities nationwide. That is the legacy that lives on through all of us today. ■

As well as being President & CEO for ICBA, Rebeca Romero Rainey is CEO of Centinel Bank in Taos, NM.

Portfolio Power

Barbell structure may be the right regimen

***Written By:** Jim Reber*
President and CEO - ICBA Securities

As yields continue to set cyclical highs during 2018, many community bankers have asked us questions about what to invest their next purchases. Some of them have been surprised to hear an answer that I've been giving for the better part of this decade, even though absolute yields and the shape of the curve look nothing like the 2010s.

This answer is rooted in history and in forecasts. While the difference in yields between short maturities and longer ones is the smallest in 11 years (i.e. the curve has flattened), most bond analysts, economists and the Federal Reserve itself are predicting that we'll see more of the same. And when it's expected that yields will continue to converge into what looks like a straight line, the type of portfolio structure that performs the best is a "barbell." This month, we review the structure and the advantages of such an exercise for your investment portfolio.

Repetition and resistance

By being disciplined and deliberate about your investments' structure, you can take advantage of today's yields and simultaneously hedge your risk against what looks to be on the cards for the next couple of years. The barbell is simple to build and easy to evaluate later. It just requires an investor to define what it considers to be suitable short-term and long-term investments. To be sure, community bankers have differing opinions on what counts as a long-term investment, but generally speaking, those with durations of five years and greater are considered as being on the high end of the price-risk scale.

Once we've identified the target investments, the portfolio manager will simply purchase roughly similar amounts of both and keep the weightings balanced through ongoing monitoring. By having a collection of bonds that are heavy on both ends of the maturity spectrum, you've successfully built a barbell.

Classic structure

Among the bonds that meet community banks' criteria of liquidity and credit quality are those issued by the Small Business Administration (SBA). They are direct obligations of Uncle Sam, and new issue volumes continue to set records, so the SBA market continues to broaden and deepen. Two of the more visible products are 7(a) pools, which are true floating rate instruments, and Development Company Participation Certificates (DCPCs), which are fixed rate pools with long average lives.

It makes logistical sense to consider them together for a barbell. For one thing, credit quality is unsurpassed. For another, one would be hard-pressed to find two bonds with more disparate price-risk profiles. For still another, we can address premium risk that attaches to the 7(a)s by pairing them with a DCPC that is available at a price below par. Finally, at this point in the rate cycle, both ends of the barbell yield much more than they would have a year ago, so an investor today has a big head start over 2017.

End of cycle projections

We created a hypothetical barbell portfolio by modeling equal amounts of 7(a)s and 20-year DCPCs. (The latter generally are issued with 10- or 20-year maturities.) We made note of their market values and yields as of April 30, 2018, and in a 75-basis point (0.75%) higher environment over the next year. This rate-hike assumption was driven by both the fed funds futures market and by the Fed's most recent projections.

Here are the more important weights and measures:

	Current	Mid-2019
Yield	2.72%	3.05%
Effective Duration	3.18 years	3.34 years
Market Value	105.27	102.78

These results are probably conservative in that we are assuming a parallel shift upward in the yield curve. What's more likely to happen is further flattening, by virtue of short rates reacting more in step with continued Fed tightening, and longer rates moving very little in comparison. A flattening would help preserve the market value of the DCPC, resulting in the price declining less than is displayed.

Stretch before you lift

As always, a word of advice from your trainer: These securities will probably produce very little cash flow in the early stages, especially if the pools are new. In fact, the fixed rate securities have prepayment penalties for the first 10 years. As they season, it's more likely the floaters will have faster prepayments, so you'll need to monitor your positions to keep the fixed/floating balance in place.

So, if your bond portfolio is suffering from a lack of recent energy or isn't built to run with the tailwinds from the Fed's monetary policy, take a trip to your favorite broker's financial fitness center. A session in barbell lifting can help flex your community bank's economic muscle. ■

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

2018 Housinglowa Conference

IOWA FINANCE AUTHORITY

CBI Affiliate Member Iowa Finance Authority (IFA) will host the 2018 Housinglowa Conference **Sept. 5-7** at the Iowa Events Center in Des Moines.

The conference will feature Frank Abagnale, FBI cybersecurity expert and subject of the film "Catch Me If You Can", Cara Brooks, who built a house on YouTube with her family, and comedian Jeff Civillico, as well as the 2018 Housinglowa Awards and a wide-range of sessions on timely Iowa housing topics.

Also featured is training for IFA's Preferred Partner program for loan officers as a part of the Housinglowa Conference. Lenders that participate in this training and fulfill associated requirements will become Preferred Partners and will be positioned as IFA experts in their communities. Preferred partners will receive priority listing on the IFA web site and preferred partner marketing benefits. This training is for both new and returning Preferred Partners.

Requirements:

- Must attend the mandatory training that **will only be available** as part of the Housinglowa Conference
- Training is included at no additional cost with Housinglowa Conference registration, but must be selected at registration
- To gain Preferred Partner status: Must have closed five FirstHome and/or Homes for Iowans loans in the previous year (Sept. 2017 – Aug. 2018)
- Must have closed five FirstHome and/or Homes for Iowans loans in the previous year (Sept. 2017 – Aug. 2018). Additional training may be required; partners will be notified in advance

Other Conference Highlights:

- Top 5 Ways Tax Reform will Impact Iowa Real Estate
- Low-Income Tax Credit Compliance Systems Training
- Top 60 Tips for Helping Home Buyers in 2019 - in 60 Minutes!
- Be on the Right Side of "Right of First Refusals"
- Fair Housing Ain't Fair – It's Equal, 2018 Edition
- Developments in Mortgage and Title Fraud
- Making The Right Choice: Lessons in Compliance and Ethics
- And much more!

To register, visit HousinglowaConference.com. ■

COMMUNITY BANKERS OF IOWA'S 47TH ANNUAL CONVENTION
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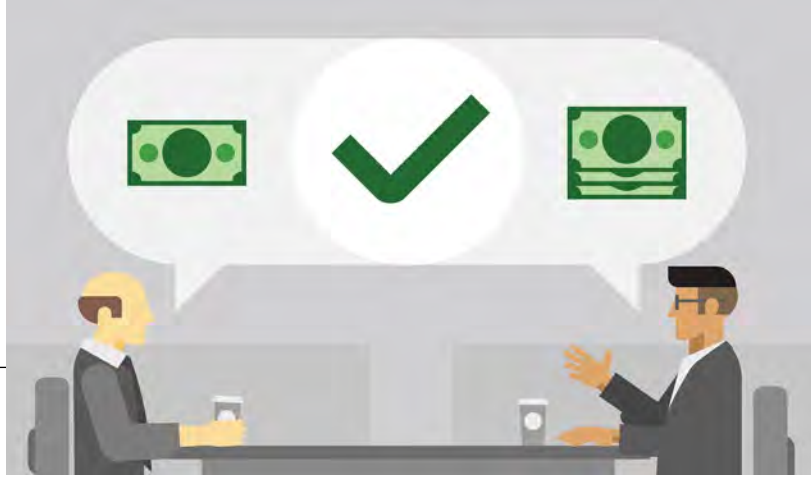
Money Isn't Everything

Written By: Chris Lorence
Group Executive Vice President,
Member Engagement & Strategy
ICBA



With the recent reductions in business taxes, many community banks, like businesses across the nation, are evaluating the pay scales of their employees. Some have measurably increased hourly rates for non-exempt staff and given salary increases to many exempt staff as a result of the anticipated increase in profitability. The increase in wages will no doubt provide a shot in the arm for employee morale but what else should leaders be doing to motivate their teams?

While it's highly unlikely that anyone would say "no thank you" to a salary increase, contemporary leaders know that financial compensation is only one component for creating sustainable and meaningful motivation. Individual members of a team need to know they are valued for their contributions while being recognized for the collaborative results of a team. So what drives people to feel valued and give their best? A sense of autonomy, the ability to develop skills leading to mastery and feeling connected to a meaningful purpose are three to consider.

People, regardless of title, position or seniority thrive when they feel they are in control of their own destiny. How you might ask can "team" and "autonomy" coexist without a constant struggle for control? Consider perhaps when team members feel empowered to bring their ideas forward and are encouraged to speak up, they feel more engaged. Leaders who cultivate a culture where both entrepreneurial thinking and collaboration are in balance, will likely see sustainable growth and results. When team members are valued as both as contributors and copilots in the team's success, self-motivation, ambition and drive ultimately fuel creativity and results.

Many are often motivated to have the opportunity to develop their skills beyond basic understanding. Whether driven by need, a desire to expand one's career value or are inspired to become a subject matter expert, having the ability to become more educated can be inspirational. For some, the sense of continuously growing their knowledge and their skills is a lifelong pursuit for excellence. Who wouldn't want a team filled with smart people who are encouraged to keep getting smarter?

It is however no secret that feeling connected to the mission of an organization can propel people into a lifetime career. Community banking for example is often described as "in the blood" of those who are passionate about what they do within the community. Who doesn't want to feel good about what they do for a living? The good news is that organizations driven by strong leaders who believe in the mission often act as magnets, drawing in more believers who contribute to delivering powerful results.

Consider however, motivation is highly individualistic and while a competitive salary is often a deal maker, not fully addressing what else makes people inspired can be a deal breaker. Successful leaders know what motivates themselves and are driven to develop the perfect formula of benefits, recognition and freedom that inspires individuals to be amazing members of the team. ■

Chris Lorence is Group EVP, Member Engagement & Strategy for ICBA and can be reached at chris.lorence@icba.org.

Chess Moves for CFOs

Written By: Joe Jones
Founder, Managing Partner
Executive Benefits Network

Eliminating duplicate costs are a big part of a CFO's job. Companies are spending money on bonding and benefits as they search for more efficient ways to manage cash flows, taxes, and costs. Most companies are required to have a strong balance sheet for bank covenants or bonding purposes and are missing an easy way to accomplish this and save key employees tax costs at the same time.

Surety bonds are acquired to protect against mismanagement, malpractice, performance, project completion, or fraud by private companies and government agencies. These are a contractual obligation that guarantees the contract will be completed according to the terms and that financial assets are available to compensate for losses, if the obligation is not met. Three parties are involved with these bonds: the principal, the surety, and the obligee. As surety bonds are offered by insurance companies, they are underwritten based on different variables: the strength of balance sheet, liquidity, and credit history. The amount of bonding is a correlation to overall financial condition. These bonds are sold in a direct leverage of a business's working capital.

Most bonds can be offered at between one half and two percent of the contract amount. Some bonds in high risk categories can charge more. The contractor pays the premium at the time of bond execution. It is important to provide a stable income, good cash flows, and conservative liquid assets. The problem in the last five years is low yielding, conservative assets usually earn less than 1% and are taxable. Institutionally priced cash value life insurance can be used to offset some of these challenges. Life insurance cash values are usually counted as liquid working capital by surety underwriters. Banks are currently booking this as a separate asset class on their call reports and have been since the late 70's.

High cash value contracts exceed premiums on day one and are often available on a guaranteed issue basis. This is preferable for a low hassle and expedient policy placement. The cash value can be a preferable bondable asset with tax free benefits in the event of a death.

Where the multiple efficiencies are usually missed in a corporate setting is in relation to any current group term life insurance offerings by the company. These are a common form of benefit and are usually offered on a formula basis. Two times salary up to $250,000 or three times salary up to $500,000 are common formulas.

Group life insurance is a valuable benefit for the participant and inexpensive to the company. The first $50,000 offered is free to the participant with the additional expense being taxed on the value in excess above that amount. The amount charged to the employee is the government Table I rate, instead of the actual company cost and is put on the W-2 at the end of the year. This rate can be as high as 40% more than the actual rate paid by the company.

There is the opportunity: By carving out the executive group in excess of the $50,000 and using the insurance benefits provided by company owned life insurance through a split dollar program, multiple advantages are achieved.

1. The company can provide the same benefits to the participant without the annual additional insurance costs.
2. The participant will pay less using the insurance company's lowest one-year term rates. This could add up to thousands of additional dollars in their pockets.
3. The yield on the cash value is higher than current short-term rates.
4. The balance sheet is stronger with a highly rated asset.
5. The aligning of cash flows is accomplished by having a flexible premium chassis. Most of my smaller business clients have unpredictable cash flows and this allows the company to skip a payment or two and catch up later. ■

Joe Jones is co-Founder and Managing Partner of CBI Endorsed Member Executive Benefits Network and can be reached at (785) 838-9800 or jjones@ebn-design.com.

Mastering Beneficial Ownership

Written By: Shane Bauer
First Vice President - Compliance, BSA & Security Officer
Bankers' Bank

BANKERS' BANK
Always your Partner — Never your Competitor™

For many years, a successful Bank Secrecy Act/Anti-Money Laundering (BSA/AML) program rested on four pillars of compliance: internal policies and procedures, the designation of a BSA Officer, employee training and independent review. Auditors and examiners, intimately familiar with these four requirements, have evaluated the programs at every regulated financial institution using the pillars as the benchmark for a successful BSA program.

In 2016, FinCEN introduced a fifth pillar, Customer Due Diligence (CDD). While the concepts in the fifth pillar go back many years to "Know Your Customer" procedures, the new CDD rules raise due diligence and risk-based Enhanced Due Diligence (EDD) out of policies and procedures and into a new pillar for special consideration. These rules were fully implemented in May 2018, and every successful BSA/AML program requires rigorous attention to understanding who your bank is doing business with.

A key component of the new CDD rules involves determination of Beneficial Ownership. Until now, customer identification and verification requirements did not specify that banks had to uncover the ownership structure of legal entities to ascertain the people behind the businesses and organizations. Under the new requirements, subject to some exceptions, every new account must be examined to identify the people behind a legal entity.

FinCEN helped the industry prepare for the May 11, 2018, deadline by developing informational materials. Resources include a sample Beneficial Ownership certification form (Appendix A), and two rounds of published Frequently Asked Questions (FAQs). Links to these resources are provided in the endnotes of this article (opposite page) for easy reference.

To help with your final reviews, here are some recommendations and clarifications on successfully incorporating Beneficial Ownership into your Customer Due Diligence policies and procedures:

1. You are not required to use the provided certification form (Appendix A). If you do not you must create one that captures the same information.

2. Unlike CIP, the new CDD rules are account, not customer-based. They apply to every new account opened with legal entity customers, even those with existing relationships with your bank. You are allowed to refer back to a previous certification form if you receive assurance that nothing has changed from it, allowing for an abbreviated re-verification. While the most recent FAQ (April 2018, see Question 7) says this can be a verbal verification, every bank should make a risk-based decision on how to document their process and many may require a written form and a signature.

3. Your bank is allowed to include an "Agreement to Notify" clause on your certification form, requiring the customer to proactively notify your bank of any change of ownership. This could be a statement added to the certification signature box saying "I also agree to notify [BANK NAME] of any change in regard to this Certification." This could be particularly helpful for auto-renewing relationships such as CDs. Without an Agreement to Notify, your bank will need to document re-verification with every renewal. Note: the Certification Form (Appendix A) linked below does not include this statement, though it can easily be added.

4. Banks should have separate policies and procedures for Beneficial Ownership. These may be substantially similar, but will not be identical to, those for their Customer Identification Program (CIP). One difference between Beneficial Ownership and CIP is new CDD rules allow banks to rely on one person to complete and certify the accuracy of the form regardless of the number of beneficial owners. Your bank is allowed to accept copies and reproductions of required identification and may rely on the information provided without further verification as to its accuracy provided they have no reason to believe it is unreliable. See §230(b)(2).

5. Similarly, banks should consider maintaining separate records documenting their Beneficial Ownership process for each new account. These are required to be retained for five years after the closing of the account.

6. Review the list of legal entities exempted from Beneficial Ownership requirements as detailed in §230(e)(2). These include other banks, publicly traded companies and governmental organizations among others. Reference to these exemptions should be included in your procedures. Note that nonprofits and charitable organizations largely are not exempt from Beneficial Ownership requirements. At least one person identified through

the "control prong" should be recorded as a beneficial owner for these customers.

7. Individuals identified solely as beneficial owners are not required to be included in mandatory information sharing under FinCEN section 314(a). However, a bank may, on a risk basis, choose to include beneficial owners in 314(a) checks. Knowing if you are doing business with a law-enforcement-monitored individual is useful information.

8. Beneficial owners should be included in OFAC screening, following procedures in line with CIP. When your bank performs periodic re-verification of customers against watch lists it may be prudent to include beneficial owners in these reviews as well.

9. As clarified in the second FAQ (see Question 3), banks are required to identify any individuals with 25% or more ownership in a legal entity customer, even if that means identifying the ownership in additional layers of legal entities (businesses owning businesses, for example). Banks should use reasonable means to ascertain the ownership of any legal entity that itself owns a legal entity customer in attempt to find individuals that thereby exceed the 25% ownership threshold. Note, it is not prohibited to set a lower ownership threshold (below 25%) on a risk basis. See Question 1 of the second FAQ.

10. Like the CIP rules, it is permitted for a bank to rely on a third party to perform the requirements of Beneficial Ownership ("reliance"). If your bank has such arrangements you may want to ensure that your documentation references Customer Due Diligence and not specifically CIP. If not, you should update the verbiage to ensure it is clear that the new CDD rules are included in your reliance.

11. Finally, do not underestimate the value of educating customers on this process, as it is new to them, too. Soon, like CIP rules from the early 2000s, Beneficial Ownership questions will be expected. Until then, some additional care in explaining why this new information is required may avoid challenges from customers unaccustomed to being asked for this information.

The new requirements of the Customer Due Diligence fifth pillar are the most significant changes to BSA/AML rules in many years, and banks can expect significant scrutiny from regulators. With the right planning and execution your bank will clear this compliance hurdle cleanly. ■

Resources:

Beneficial Ownership Rule – 31 CFR 1010.230

Beneficial Ownership Form – Appendix A – Revised Sept. 2017

FinCEN FAQ One – July 2016

FinCEN FAQ Two – April 2018

Shane Bauer is First Vice President – Compliance, BSA and Security Officer at CBI Associate Member Bankers' Bank and holds a BS and a MBA from the University of Wisconsin-Madison. He is a member of the International Association of Financial Crimes Investigators. He can be reached at sbauer@bankersbankusa.com.

Main Street Rural Economic Survey

Rural Mainstreet Index at Highest Level in Almost 5 Years:

Trade Concerns Batter Business Confidence, Rising Regulatory Greatest Banking Challenge

April 2018 Survey Results at a Glance:

- For a third straight month the overall index remained above growth neutral.
- Farmland price growth and agriculture-equipment sales continue to decline.
- Trade concerns slam the business confidence index
- More than three-fourths of bank CEOs reported that export markets were very important to their local economy.
- Almost one-third of bankers support the abolition of NAFTA and undertaking a new agreement.
- More than one-fifth of bankers support the elimination of oil refinery waivers to RFS obligations.

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

Overall: The overall index dipped slightly to 53.5 from 54.7 in March. The index ranges between 0 and 100 with 50.0 representing growth neutral.

"Surveys over the past several months indicate that the Rural Mainstreet economy is trending upward with improving, and positive economic growth. However, weak farm income continues to weigh on the rural economy," said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Recent trade tariffs, both implemented and proposed, have reverberated throughout agricultural areas of the region. Some have advanced various federal measures to assist agriculture, including eliminating oil refinery wavers to the renewable fuels standard (RFS). Approximately 21.1 percent of bankers supported the elimination of the waivers, 47.3 percent backed granting no more waivers, while 31.6 percent, supported increasing oil refinery waivers.

According to Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa, who recently met with DC legislators, said, "The meeting was for regulatory relief (s.2155) that will benefit both the consumer and community banks, and passing a new farm bill that will allow farmers to continue to feed the world. We came away optimistic that Congress will pass legislation on both issues. The growth of our economy depends on it."

CLICK TO READ MORE OF APRIL'S SURVEY

May 2018 Survey Results at a Glance:

- For a fourth straight month the overall index rose above growth neutral.
- On average, bankers expect farm loan defaults to rise by only 3.0 percent over the next 12 months.
- Over the past year, average annual cash rents on farmland declined by 3.0 percent to $239 per acre.
- More than one-third of bank CEOs identified rising regulatory costs as the top economic challenge to their banking operations over the next five years.

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

Overall: The overall index rose to 56.3, its highest level since July 2013, and up from 53.5 in April. The index ranges between 0 and 100 with 50.0 representing growth neutral.

"Surveys over the past several months indicate the Rural Mainstreet economy is trending upward with improving, and positive economic growth. While agriculture commodity prices have improved recently, prices remain below breakeven for a large share of grain farmers," said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

More than one-third, or 36.4 percent of bank CEOs identified rising regulatory costs as the top economic challenge to their banking operations over the next five years.

Farming and Ranching: The farmland and ranchland-price index for May declined to 42.2 from April's 42.9. This is the 54th straight month the index has fallen below growth neutral 50.0.

Bankers were asked the average cash rent per acre of farmland in their area. On average, bankers reported $239 per acre which is down by approximately 3.0 percent from this time last year.

According to Lonnie Clark, president of the State Bank of Chandler in Chandler, Minnesota, "Late planting due to late snow melt and wet conditions."

On the other hand, Jim Eckert, CEO of Anchor State Bank in Anchor, Illinois, reported, "Planting is behind schedule and the area is very dry."

The May farm equipment-sales index climbed to a weak 43.8 from April's 37.8. This marks the 57th consecutive month the reading has moved below growth neutral, 50.0.

CLICK TO READ MORE OF MAY'S SURVEY

Tables 1-3 summarize survey findings

(click each table to view larger):

Table 1: Rural Mainstreet Economy April/May 2018: One Year Ago and Last Two Months (index > 50 indicates expansion)	April 2017	May 2017	March 2018	April 2018	May 2018
Area economic index	44.6	50.1	54.7	53.5	56.3
Loan volume	81.6	74.5	56.9	68.7	74.3
Checking deposits	52.2	48.9	58.0	56.0	43.9
Certificates of deposit and savings instruments	44.6	38.9	50.0	45.3	40.9
Farmland prices	30.7	36.4	42.7	42.9	42.2
Farm equipment sales	21.5	26.8	37.2	37.8	43.8
Home sales	56.8	63.6	52.3	57.1	62.1
Hiring	57.8	60.1	58.1	64.0	56.0
Retail business	40.2	48.9	48.9	53.6	46.9
Confidence index (area economy six months out)	45.6	46.6	58.0	50.0	50.0

Table 2: Rural Mainstreet Economy April 2018	Percentage of bankers reporting				
	Increase oil refinery waivers		Grant no more oil refinery waivers		Eliminate oil refinery waivers to RFS
Regarding possible changes to the Renewable Fuels Standard (RFS), the Trump Administration should:	31.6%		47.3%		21.1%
	Not important	Modest importance	Important factor	A very important factor	One of the most important factors
How important are export markets to your local economy?	0.0%	4.8%	19.1%	64.3%	11.9%
	Abolish NAFTA-Start anew	Raise tariffs to gain bargaining power		Reduce tariffs on imports to encourage collaboration	Continue with current NAFTA
Regarding the U.S. North American Free Trade Agreement (NAFTA), the Trump Administration should:	31.0%	16.7%		11.9%	40.5%

Table 3: Rural Mainstreet Economy May 2018	Percentage of bankers reporting				
	Below $200	$200 - $249		$250 - $299	Over $300
What is the average annual cash rent per acre for cropland (not pasture) in your area?	27.1%	27.4%		36.4%	9.1%
	Other	Competition from Farm Credit	Farm foreclosures	Slow economic growth	Rising regulatory costs
For a five-year time horizon, which of the following represents the biggest economic challenge to your banking operations and/or profitability	21.4%	9.0%	9.1%	24.2%	36.3%
	Decline 10% - 20%	Unchanged		Increase 1% - 9%	Increase 10% to 20%
Regarding farm loan defaults in your area over the NEXT 12 months, what do you expect?	2.9%	45.5%		45.5%	6.1%

For historical data and forecasts, visit: www.creighton.edu/economicoutlook. Follow Ernie Goss on Twitter www.twitter.com/erniegoss

News from CBI Affiliate & Associate Members

2018 Golf Outings

June 19
CliftonLarsonAllen 11th Annual Community Bankers Seminar and Golf Outing
Echo Valley Country Club
Norwalk, IA
RSVP NOW

July 10
MIB Golf Day
Tournament Club of Iowa
Polk City, IA
REGISTER NOW

July 18
CBI Mixed-Pair Golf Tournament
Emerald Hills Golf Club - Okoboji, IA
(for CBI 47th Annual Convention attendees)

July 20
CBI Bankers' Golf Tournament
Brooks National Golf Club - Okoboji, IA
(for CBI 47th Annual Convention attendees)

September 10
CBI 11th Annual Golf Tournament
Hyperion Field Club - Johnston, IA

Dickinson Law to Celebrate Art During Their 6th Annual Open House

Six years ago, Dickinson Law launched an art program at the firm to give Iowa artists a free venue to display their work and to celebrate the talent we are fortunate to have throughout the state. These fine artists entrust the firm with their paintings, photographs, sculptures and other works for up to a year, and in June Dickinson Law holds an Open House for clients and guests that coincides with the first day of the Des Moines Arts Festival. The 6th Annual Open House will be on **Friday, June 22nd** from 4:30 – 6:30 pm. CLICK HERE TO REGISTER.

Drinks and appetizers will be served while you admire the works of talented Iowa artists. For more information on CBI Affiliate Member Dickinson Law or their 6th Annual Open House, visit dickinsonlaw.com or contact Kris Coy at kcoy@dickinsonlaw.com or 515-244-2600. ■

THANK YOU DICKINSON LAW, 47th Annual Convention Gold Sponsor!
See page 4, or visit cbiaonline.org for Convention details.

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Do You Know About Community Bankers Services & Insurance (CBSI)?

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

CBSI has done the research for you! Endorsed service providers undergo a rigorous due diligence process and are ultimately chosen by a panel of community bankers. Critical due diligence is always performed when launching new services. The review process for each program is intended to ensure that no service program is undertaken unless it will prove to be beneficial for the membership.

CBSI and its partners continue to work together to enhance member products and services. The CBSI Board of Directors meets quarterly to review endorsed vendors and consider new partnerships, often suggested by members. Your bank and your association will benefit when you have a choice of the best providers. ■

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