MAY / JUNE 2019
OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS OF IOWA

the COMMUNITY BANKER UPDATE

MAY/JUNE

48TH ANNUAL CONVENTION PREVIEW

TELLING OUR STORY

COMMUNITY BANKERS OF IOWA'S
48TH ANNUAL CONVENTION
JULY 17-19, 2019

CBI

UPCOMING WEBINARS

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Click MORE INFO for a full description or to register for the webinars shown here.

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Click for **2019 Schedule**

MORE INFO	June 14	Hemp Farming Act: CBD, FAQs & Impact on Financial Services
MORE INFO	June 17	Untangling Complex RDFI Challenges
MORE INFO	June 18	Electronic Returned Items: Combating Fraud
MORE INFO	June 19	Consumer Collection Series: Effective Debt Collection Techniques & Strategies
MORE INFO	June 20	Regulation E Series: Reg E Fundamentals
MORE INFO	June 25	Living, Grantor & Family Trust Accounts: Common Problems in Account Opening & Lending
MORE INFO	June 26	BSA Series: Job-Specific BSA Training for the Board
MORE INFO	June 27	Card Data Security: PCI-DSS Risk, Readiness & Compliance
MORE INFO	July 1	Managing Accounts & Records for Nonresident Aliens: Opening, Identifying, Monitoring & Tax Reporting
MORE INFO	July 2	ALLL Supporting Documentation: Current Rules & Future Expectations Under CECL
MORE INFO	July 9	IRA Series: Processing IRA Rollovers & Transfers
MORE INFO	July 10	Mortgage Lending Hot Spots Series: Surviving a TRID Compliance Exam
MORE INFO	July 11	FinCEN Guidelines on Reporting Elder Financial Exploitation
MORE INFO	July 15	Introduction to SBA Lending
MORE INFO	July 16	BSA Series: Job-Specific BSA Training for the Frontline
MORE INFO	July 17	Regulation E Series: Legally Handling ATM & Debit Card Claims Under Regulation E
MORE INFO	July 18	Wire Transfer Compliance, Including International Remittances

2019 CBI Event Schedule

Dates are subject to change.

TELLING OUR STORY
COMMUNITY BANKERS OF IOWA'S 48TH ANNUAL CONVENTION
JULY 17-19, 2019

July 17-19
CBI 48th Annual Convention

REGISTER NOW

August 1
- Leaders Of Tomorrow Business Meeting *(Location TBD)*

September 9
- CBI 12th Annual Golf Tournament

October 17
- Leaders Of Tomorrow Business Meeting *(Location TBD)*

November/December
- CBI Community Banker Legislative Tour *(dates and locations TBD)*

In This Issue

CBI Community Bankers of Iowa

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Join Us at CBI's 48th Annual Convention

TELLING OUR STORY
COMMUNITY BANKERS OF IOWA'S
48TH ANNUAL CONVENTION
JULY 17-19, 2019

REGISTER NOW!

Community banks have always been big contributors to the histories of their communities, often authoring their growth and futures to come. Since 1972 CBI has continually supported and defended Iowa's community banks, assisting them in that effort. CBI provides noteworthy educational programs, flips the script by advocating for community bankers on critical issues, and offers products and services that can help your bank write the next chapter in our industry's story.

The CBI Management Conference and Annual Convention is the premier event of the summer. It brings Iowa's community bankers together to learn both from each other and from industry experts. Guest speakers at the 48th Annual Convention include **John Tamny**, Director of Center for Economic Freedom for FreedomWorks, **Mark Hemingway**, Senior Writer with RealClearInvestigations, keynote speaker & comedian **Greg Schwem**, and ICBA's Vice President of Congressional Relations **Stephen Keen**. You can also get a sneak peak at a local Iowa business at the Town Hall Breakfast, this year featuring Diamond Vogel Paint's Chairman & CEO **Drew Vogel**. Great breakout sessions are all panel format this year. On the stage are the ever-popular **Regulators' Panel**, the **Elder Financial Abuse Panel**, and the **Faster Payments Panel**.

Meet up with old friends and new at the **Kickoff Reception**, on the lake during the **15th 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. And get more time to network with peers and check out the latest products and services during the **Gala** and **Tradeshow**.

Iowa community banks' stories depict decades of impact, change, resilience and growth. Tell YOUR story and join us at CBI's 48th Management Conference and Annual Convention! Additional information and registration is available online at cbiaonline.org. Call at 515.453.1495 with questions. ■

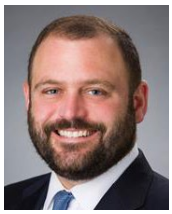
Refer to the 48th Annual Convention Event Guide for detailed info.

GUEST SPEAKER LINEUP

General Session Speakers


John Tamny


Mark Hemingway


Stephen Keen

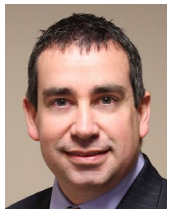

Greg Schwem

Town Hall Breakfast


Drew Vogel

Regulators' Panel


James LaPierre


Chad Jorgensen


Ron Hansen

Elder Financial Abuse Panel


Jodi Selby


David Lenoir


Chantelle Smith

Click photos to learn more about each speaker.

Faster Payments Panel


Cary Whaley


Kassi Quimby


Terry Dooley

Welcome New CBI Members!

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

State Bank
New Hampton
Calmar • Charles City • Dike
Janesville • Ossian • Waverly

Vision Bank
Ames
Boone • Huxley

2019 Money Smart Week Poster Contest

Winners Selected Among Over 1,500 Entries!

2019 Money Smart Week Poster Contest Winners:

First Place: Garrin Schult, 6th Grade, submitted by State Bank in Waverly.

Second Place: Bella Michels, 5th Grade, submitted by Citizens State Bank in Sheldon.

Third Place: Braden Johnson, 2nd Grade, submitted by Northwest Bank in Sioux City.

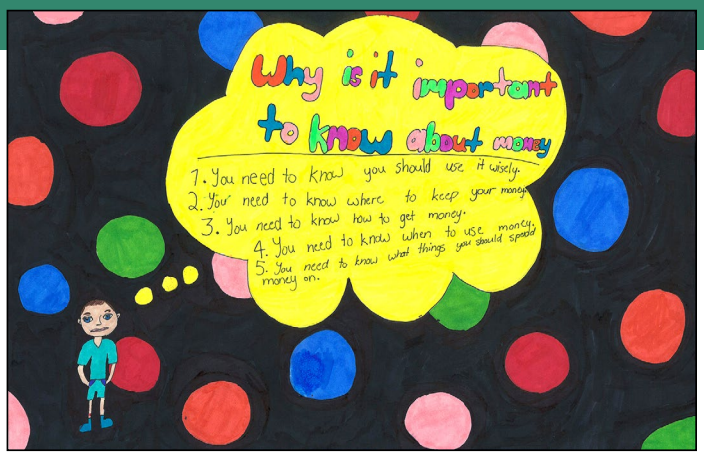
The First Place winner was awarded a $600 CD, with Second and Third prizes each receiving a $300 CD. To enter the Money Smart Week Poster Contest, Iowa elementary students in 2nd through 6th grades submitted over 1,500 poster designs to participating community banks across Iowa, who then submitted the 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.

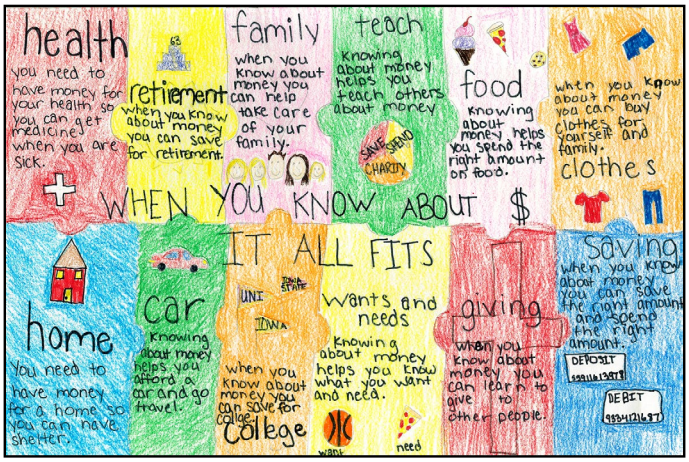
Since 1999, Community Bankers of Iowa has hosted the Money Smart Week Poster Contest as part of April's Community Banking Month festivities, and the Money Smart Week awareness campaign hosted by the Federal Reserve Bank of Chicago to increase financial literacy among children. This year, Money Smart Week events were held the week of March 30 - April 6. 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.

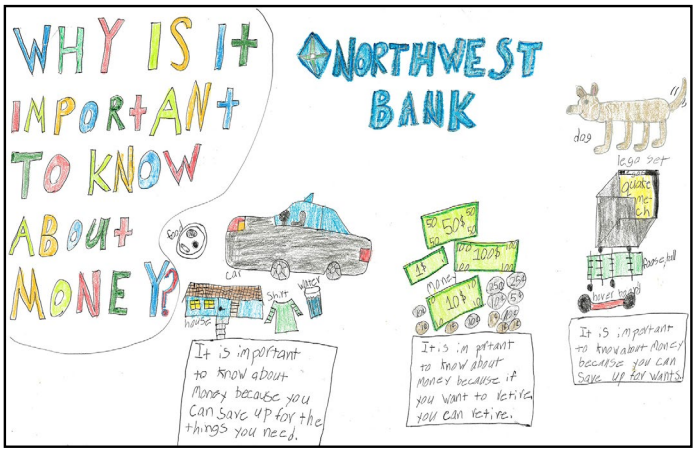
Congratulations to the winners, and a BIG thank you to all of the community banks and schools throughout Iowa that participated in this year's Poster Contest and promoted financial literacy in your communities. See you again next year! ■



First Place Poster by Garrin Schult, 6th Grade, of WSR Middle School in Waverly, Iowa.



Second Place Poster by Bella Michels, 5th Grade, of Sheldon Middle School in Sheldon, Iowa.



Third Place Poster by Braden Johnson, 2nd Grade, of Nodland Elementary School in Sioux City, Iowa.

Click the poster images to view larger.

First Place Winner Garrin Schult receiving his award from State Bank employees in Waverly. Pictured L-R: Valerie Gaede - Mortgage Loan Processor, Garrin Schult, James Perry - Mortgage & Consumer Loan Officer. Click photo to view larger.

Citizens State Bank Executive Vice President Heidi Brown displays Second Place Winner Bella Michel's poster design at a suprise assembly at her school in Sheldon. Click photo to view larger.

Third Place Winner Braden Johnson (center) poses for photos during a celebration given for him by Northwest Bank employees. Braden's family was also in attendance.

How Leaders Improve Employee Engagement to Drive Results

10 Critical Steps

By: Jenny Mangone
Human Resource Director
MRA - The Management Association

Research shows that engaged employees perform better, work harder, get better results, and are more likely to stay with an organization. Consider these steps to boost employee engagement and get the organizational results you are looking for.

1. **Make Employee Engagement a Strategic Priority.** When strategic plans are developed for organizations, priorities are usually focused on profits, efficiencies, customer service, quality, and profitability. These areas are all critical to a business, yet organizations need to add employee engagement to the list of priorities in order to realize full business success. Why? The common link in maximizing each of these priorities is PEOPLE.

2. **Ensure Leaders Are Invested.** Leaders who understand the importance of employee engagement "get" why resources are allocated for this purpose. They understand engagement is a key business initiative and they take engagement seriously as they would any other business opportunity.

3. **Be Open.** If you had a choice of working for an employer who welcomed, implemented, and acknowledged your ideas, or for an employer that did not afford these same considerations, which would you choose? Be the employer that inspires innovation. You have smart, talented, and highly sought after employees, so let them share their ideas!

4. **Give Employees Resources.** You can't expect to deliver high quality products if you don't invest in materials, supplies, infrastructure, and other resources to make it happen. Consequently, you cannot expect your employees to deliver on performance expectations without the necessary resources to do their job. Ask employees what resources they need to do their jobs.

5. **Be a Great Leader.** Think for a moment about the "one" leader who truly inspired you and encouraged you be your best each day. Chances are, that individual supported you and encouraged you, and valued your ideas and contributions. Inspired employees will go above and beyond each and every day for you.

6. **Listen and Act on Feedback.** When conducting an employee engagement survey:
   - Do you listen to what your employees are saying?
   - Do you let employees give feedback?
   - Do you make an action plan and review with employees on a regular basis?

7. **Invest in Your People.** Employees want opportunities to learn, grow, and develop. Find out what matters to your employees in terms of their own professional development.

8. **Get Good at Communicating Often.** Employees expect and appreciate ongoing communication, especially in today's work world, where teams operate in a variety of locations, both in person and online, across the globe or in the same office.

9. **Build Relationships.** We often spend more time at work than we do with our family. Recognize that relationships matter and help to create an environment of trust and transparency. Get to know your employees on a personal level.

10. **Do Your Own Inventory.** Start by having a conversation to determine what you can do to enhance employee engagement
    - Do you know what matters most to YOUR employees?
    - Do you understand the issues and/or challenges they are facing in their jobs?
    - Do they feel recognized?
    - Do they feel connected to the organization's mission and/or vision?
    - Do they have a chance to share ideas?
    - Do they have an opportunity to be at their best every day?

In order to be successful, ALL LEADERS at ALL LEVELS in the organization must be invested in employee engagement. ■

Jenny Mangone is a Human Resource Director at MRA - The Management Association. For more infomation about CBI Endorsed Member MRA visit www.mranet.org or follow MRA on LinkedIn, Facebook or Twitter @MRA_HR_Pros.

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Education for Every Level of Your Financial Institution

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

Check them out here:
cbiaonline.org/webinars

Ag Equipment Valuations | Are Your Loans Properly Collateralized?

By: Kyle McMahon, Founder & CEO - Tractor Zoom

TRACTOR ZOOM

The growing impact of a turbulent market coupled with high input costs are taking a toll on the farming economy. Tariff and trade uncertainty with China, plentiful global supplies placing downward pressure on prices and farm income, and increasing carry-over debt mixed with uncooperative weather have all added to the challenge.

Impact on Ag Lenders. Banks with the largest exposure to agricultural lending are beginning to feel the impact as well. Bank CEOs surveyed for the May 2019 Rural Mainstreet Index (RMI) expect that the percentage of farm loan defaults over the next 12 months will climb by 10.9%, which is more than double the estimated rate of growth just two years ago. More than one in four bankers report rejecting a higher percentage of farm loans due to declining farm income.

During times of increased risk, strong risk management practices become even more critical to maintaining a healthy bank. As a result—and perhaps not surprisingly—the RMI survey also found that almost two-thirds of bankers have increased collateral requirements for farm loans.

Impact on Ag Equipment Manufacturers. John Deere recently announced that the company will cut the production of new equipment by 20% order to maintain profits in the face of a weakening global farm economy. Deere has experienced decreasing sales and profits for nine consecutive quarters. The company said it lowered its forecasts because farmers worried about crop prices, economic uncertainty and delayed planting aren't buying as much equipment.

Impact on Growers. Record harvests and falling crop prices have negatively impacted the income of farmers around the world and made them reluctant to make major investments in equipment. Instead, they are maintaining the equipment they have, buying used or at auction. These factors have combined to create a large surplus of used farm equipment in the marketplace.

Sales data from farm equipment auction site Tractor Zoom shows that as many tractors (175hp or more) have sold at auction so far in the first 5 months of 2019 than in all of 2018. Furthermore, the average selling price has declined more than 13%.

Impact on Ag Equipment as Loan Collateral. For banking purposes, the drop in used equipment prices this will affect current and future loans collateralized with farm machinery. Due to the decrease in value of assets that make up these loans, loan to value ratios may be off balance and no longer meet the thresholds necessary to protect a bank's investment. It is likely that the surplus of used farm equipment on the market won't be depleted for several years.

What Ag Lenders Are Doing. During this period of decaying credit conditions, loans collateralized with farm equipment could be troublesome and expose banks to increased risk. If you have farm loans on the books, it may be time to revisit the equipment valuations on balance sheets and overall method used to evaluate for the collateral. ■

Kyle McMahon is the founder and CEO of Tractor Zoom and can be reached at (515) 518-0228 or kmcmahon@tractorzoom.com. Iron Comps, powered by Tractor Zoom data, is changing the way ag lenders do business by providing quick access to accurate, timely equipment valuations backed by auction market data. For more information about CBI Affiliate Member Tractor Zoom/Iron Comps, visit www.tractorzoom.com and www.ironcomps.com.

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THANK YOU IRON COMPS

Gold Sponsor of the 48th Annual Convention! See pg 4, or visit cbiaonline.org for Convention details.

Don't Take a Chance on Cyberattacks

By: Rob Griffith
Sales Executive - Aureon

AUREON™

Gone are the days of relying solely on security audits and environment tests. Without the proper IT security in place, you are vulnerable to cybercriminals trying to enter your network and access your data. Cybersecurity solutions are vital to keeping your financial institution and your customers protected.

Implement essential technology services

Services such as anti-virus, firewall protection, network monitoring and wireless security are layers of defense that combine to provide state-of-the-art protection. Protecting your network with a firewall and an elaborate network system is becoming a necessity, and can be the difference between being hacked and being safe. A firewall is the foundation to protecting your network from unauthorized access, and having a managed security service helps focus your internal resources on core business functions and initiatives.

Actively monitor your security controls

Once you have systems in place, you can manage your network activity to monitor for security threats. Security Information and Event Management (SIEM) is one effective strategy that delivers a centralized view of all network data. From that data, it can identify any threats and track them throughout your system, providing a clearer picture of what's happening in your network. Managed security service providers, like Aureon, do the work for you by providing affordable and effective monitoring, letting you know right away when security incidents occur and including log monitoring reports and network analytics.

Recover quickly

Unanticipated threats not only cause data loss but also lead to costly downtime. How you handle an outage, recover from it and prevent it from happening again is crucial for your organization. If your business depends on system uptime and availability to serve clients, just running a daily backup may not be enough. Having a business continuity plan that includes failover solutions significantly protects your bottom line.

Be proactive

Even with the most advanced technologies in place, untrained employees can leave an organization vulnerable to attacks. Ensure you have an updated cybersecurity policy that covers: standards for installing software updates and patches, password guidelines, proper internet usage, ways to keep sensitive customer data safe and detecting scams and social engineering tactics, such as phishing. This also defines approved methods for securely transferring or sharing data with external partners and customers. Having a plan in place and regularly educating your employees on how to prevent attacks is essential for every organization. ■

Rob Griffith is a Sales Executive for Aureon and can be reached at rob.griffith@aureon.com. For more infomation about CBI Affiliate Member Aureon visit www.aureon.com.

CBI Ag Conference: RECAP

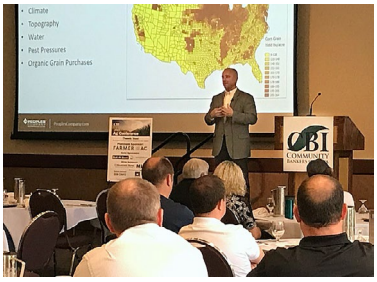
Clockwise from top: 60 community bankers and industry partners attended the CBI Ag Conference; Dr. David Muth; Jackson Takach; Steve Johnson; Elwynn Taylor; Community Bankers of Iowa CEO Dave Caris & ISU Women's Basketball Coach Bill Fennelly.

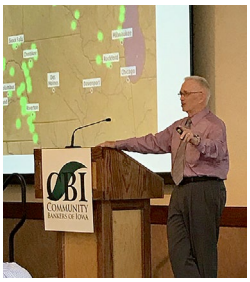
CBI's Ag Conference was held May 30 at the Gateway Hotel & Conference Center in Ames, Iowa. Sixty community bankers and industry partners were in attendance to discuss the agricultural economy in Iowa and the nation, as well as Iowa's recent flooding disasters, climate change, and land values.

Appearing at this event was Iowa's Secretary of Agriculture Mike Naig to give attendees an update on the current conditions for producers in light of spring flooding in Iowa. Peoples Company's Dave Muth discussed current land values. Special guest Coach Bill Fennelly, Iowa State University's Women's Basketball coach gave the keynote address, an update on Iowa sports. Jackson Takach, Economist with Farmer Mac educated conference attendees on current issues in Ag Finance.

Afternoon sessions included an ag economy update by Steve Johnson, Farm Management Specialist at Iowa State University (ISU), and a presentation on climate change by Elwynn Taylor, ISU Climatologist. Courtney Cowley from the Federal Reserve ended the day with an update on the Ag economy across America.

Thank you to sponsors Farmer Mac, Bell Bank, Dickinson Law, Bankers' Bank, Midwest Independent Bank, Iron Comps and Country Banker. *We appreciate your support!*





CBI Hall of Fame Member Spotlight:

Providing Innovative Solutions to Iowa Community Banks

CBI Associate Member and 2019 Hall of Fame Sponsor United Bankers' Bank (UBB) is the nation's first bankers' bank and a full service provider of correspondent banking services to over 1,000 community banks across the nation. UBB pioneered the bankers' bank model and has been bringing correspondent banking solutions to Iowa's community banks for over 28 years.

UBB is a bankers' bank founded on the principles that it will never compete against its community bank customers. As the nation's only true full service bankers' bank, they provide community banks with innovative solutions for all their banking needs. UBB's expansive product and service offerings consisting of operational, lending, investment, and consulting services can provide CBI Member banks a trusted and centralized location for correspondent banking services that can assist them in improving their efficiencies, reducing costs and strengthening their balance sheets.

Iowa represents the heartland of America and encompasses the Midwestern values UBB was founded on. UBB understands the needs of community banks in the Midwest and has been helping them be successful since 1975. Supporting Community Bankers of Iowa is important to UBB, because they share the same vision and common interest that has contributed to the continued success of independent community banking in the state of Iowa. UBB views Community Bankers of Iowa as a valued partner, and through their support UBB is able to assist CBI in achieving its mission.

UBB is First for Your Success and committed to the success of their customers as well as the entire community banking industry. For more information on 2019 CBI Hall of Fame Sponsor and Associate Member United Bankers' Bank visit www.ubb.com

CBI thanks United Bankers' Bank for it's continued support! ■

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THANK YOU UNITED BANKERS' BANK

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From the Top

Written By: Preston Kennedy, Chairman of ICBA

On May 15, 2018, I celebrated my 40th anniversary as a community banker. It's a milestone that I hold close to my heart, not just because of its significance in my career, but also because it marked the day that I was able to turn over bank management to the next generation. While I still hold a leadership position at our holding company, the day-to-day workings of the Bank of Zachary are now in the capable hands of my successor, Mark Marionneaux.

This transition started about nine years ago when we brought Mark on board. We didn't hire him as "the successor," but we worked toward that end. When it became clear it was the right move, we started talking about timelines and responsibilities, where he felt he needed deeper knowledge and where he really excelled. These communications gave us the opportunity to prioritize the tasks to transition first and those to develop a bit more.

"Any good coach knows when it's time to put in new players."

But succession planning must extend beyond that one-on-one dialogue between the current and future leader. This type of preparation requires organizational awareness and input from all parties, including the candidate, bank leadership and staff, and the board. These discussions are critical over the course of the transition. They allow you to find out where there are opportunities to strengthen the candidate's connections to the bank and its team.

In addition, board-level conversations really can drive the approach an institution takes to succession planning. From a fiduciary responsibility level, it's critical to put it on the table early. The board needs to understand the landscape and the budgetary impact of the costs of the transition itself and those of attracting top talent.

But how do you know when it's time to fully hand over the reins? That's the million-dollar question, yet we can't lose sight of the fact that we're here to serve the needs of the whole organization. If our focus is on what's best for the company, the employees, the shareholders and our customers, when it's right should be self-evident.

Because any good coach knows when it's time to put in new players. As leaders of our community banks, we need to apply that same discipline to ourselves. Succession planning is critical to the future of our banks. If we wait until we need our replacements, it's too late. People want, and need, to be coached up. So let's not be afraid to coach our successors. It will ensure we have the right leadership in place so our community banks can continue to flourish.

My Top Three

My three key principles of succession planning include:

1. Identify the right candidate
2. Communicate your succession plan to your organization
3. Know your role and that of your successor—and make sure your team does, too. ■

Preston Kennedy is President & CEO of Zachary Bancshares, Inc. in Zachary, LA.

Flourish

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

After college, I moved back to my hometown of Taos, N.M. I was driven by the goal of doing whatever I could do to make a difference in my community. At the young age of 22, I became the third generation of my family to take the helm as president of Centinel Bank of Taos. I was given a significant opportunity by the board and bank management—one I didn't take lightly.

"Leadership lies not in the position you hold but in what you do with it."

Becoming bank president that early in my career motivated me. I was inspired to deepen my engagement, better support our customers and expand our role in our community. Having that door opened to me unleashed a passion to do more to help community banks flourish.

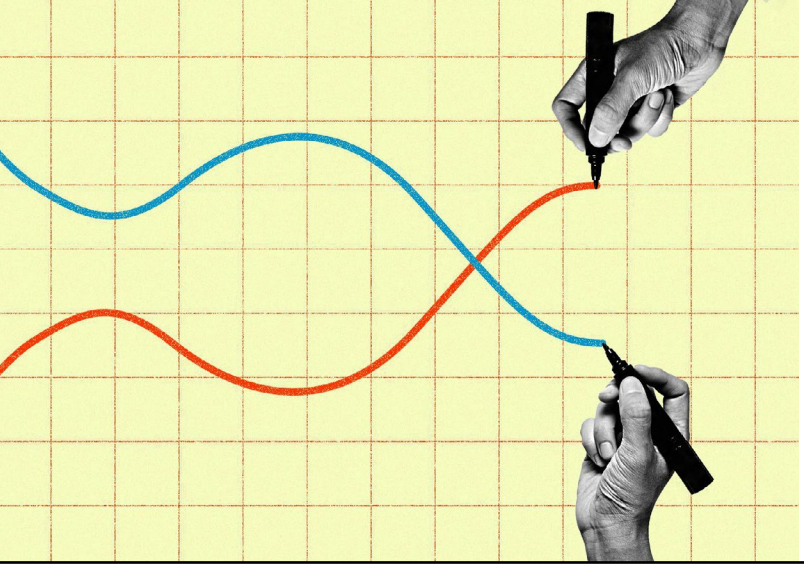
This desire to serve has remained with me throughout my career and has led me to where I am today. In my late 20s, I was honored to join the Board of the Independent Community Bankers of New Mexico, where I focused on ways I could help meet our state's community banking needs. Through that work, I started getting involved at the national level with ICBA, participating in committees, helping to form ICBA's Minority Bank Council, joining the Executive Committee and, ultimately, becoming president and CEO of ICBA.

It all comes down to what we do with the chances we're given. That's why I love that this month we're recognizing the "40 Under 40" rising stars of community banking. These are bankers who are doing great things, and their stories show what's possible when a banker grabs hold of emerging opportunities and looks to better the community banking landscape.

These stories will inspire you to identify ways for your institution's leaders to continue to grow. Perhaps it's an internal mentorship program, or maybe you can encourage them to attend ICBA's annual event for emerging leaders, the LEAD FWD Summit, in September. You could empower your up-and-comers to expand subject-matter expertise by taking courses with Community Banker University or to increase their impact by getting more involved with ICBA. No matter the path you choose, let's all be in the business of creating opportunities for new leaders—so they can continue to accomplish more!

Leadership lies not in the position you hold but in what you do with it. As today's executives, one of the most important things we can do is support the advancement of the leaders of tomorrow. By cultivating those who will power the future of community banking, we enable them to do more to be bold in innovation, leadership and life. ■

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



Portfolio Management

Alternate Tracts

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

ICBA Securities
Powered by VINING SPARKS

A flat yield curve rewards bond buyers who comparison shop.

Let's look back for a moment to June 30, 2006. The Fed bumped up the rate on overnight borrowings one more time, to 5.25 percent, with its 17th and final hike of the cycle. You want flat? I'll show you flat:

Fed funds	5.25%
One-year T-bill	5.19%
Two-year note	5.15%
Five-year note	5.09%
10-year note	5.14%

How many buyers would have preferred a 10-year instrument over, say, a two-year note with little or no immediate benefit? I recall it was less than most, as they say.

And who could blame them, based on how risk-averse investors are wired to be? Certainly, community bankers understand that risk belongs in the loan portfolio. They know the primary purpose of the bond inventory is safety, followed by liquidity and cash flow. It is counterintuitive to buy a longer versus a shorter bond and not be rewarded with a higher return.

It's well known by now that those brave soldiers who elected to go long in 2006–07 were happy they had done so by the end of 2008. Fed funds had plummeted to nearly zero by then, and stayed there for seven full years.

As interest rates dropped like a rock, investment yields soon followed. The typical community bank's investment portfolio yield fell by about 130 basis points (1.30 percent) between 2006 and 2009, even though average maturities actually increased during that window. Portfolio managers were trying hard to build some duration to stem the cash flow tidal waves that were storming through their balance sheets.

What's the lesson to be learned? Well, I think it's been internalized that a flat curve precedes a slowdown in the economy and, eventually, a stimulative Fed policy. Instead, perhaps the message today is that there are tools available to help make good decisions about maximizing **bang-for-the-buck when picking investments among a stack that have similar yields.**

Yield versus volatility

It's time to state for the record that not all bonds today, nor at any other time, yield the same. There are always going to be allowances for liquidity, certainty and, of course, credit quality. It is, however, correct to say that the range of available yields has converged into a tighter stratus than any time in the last decade.

So, an important measure of value—total return—becomes more prominent when faced with an interest rate environment like the one we have in 2019. Total return is the sum of two inputs: yield and price change over a period of time. If a community bank has a bond with a 2.50 percent yield and its price increases by 1 percent over the next 12 months, its total return for the period is 3.50 percent.

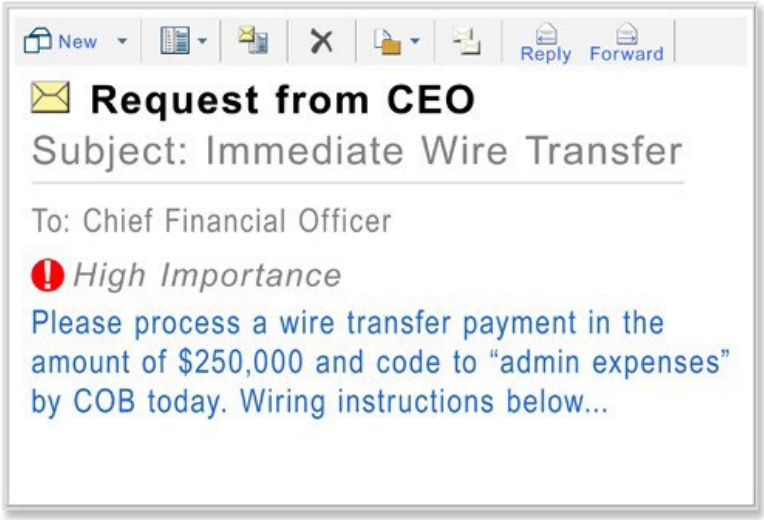
Going dark

Any collection of investments can be modeled for total return over a range of future interest rate paths, and their results tallied for comparison. You are correct to assume a short bond will outperform a longer one if interest rates rise in the future, as the starting yields will be roughly similar but the price volatility will be less. The opposite is thus: Longer-duration bonds will have higher total returns, given a lower rate horizon.

Many broker-dealers and bond analysts survey the market and compile total return outcomes on tables for investors to utilize. An excerpt of one such table is below. In this example, the darker the square, the higher relative return given that future rate assumption. The darkest squares indicate top-quartile performance among all other bonds in that column.

Market yield barometers have long been available to identify securities that offer relative value. Given the convergence of stated returns in today's market, and the possibility of the next secular shift being *either* higher or lower, total return analysis may be a useful alternative tract for portfolio management and measurement. ■

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



Combat Fraudulent Instructions

Written By Travelers Insurance

TRAVELERS

One increasing claim trend we've seen at Travelers among financial institutions is a form of social engineering referred to as fraudulent instructions. In a bank's case, fraudulent instruction occurs when an employee is tricked into transferring money from a customer's account to somewhere else because a fraudster steals the customer's identity and convinces the bank through emails or phone calls to move the funds. With the benefit of seeing multiple claim scenarios, we would like to share some of the best practices that can be used to prevent fraudsters from making your bank a victim.

- Train your staff. The Number 1 way to prevent fraudulent instructions is to have a well-trained staff that follows procedures, verifies a customer's instructions by calling the customer at a pre-determined number, and questions things when they don't look right. Your staff should not only understand the procedures but also why they are important. Train your staff not to deviate from procedures by taking shortcuts.

- Deliver good customer service, but make the customer prove who they are. Don't hand the customer answers. In a recorded call we listened to, a bank employee was trying very hard to give the member excellent customer service but did so at the expense of the real customer. To questions such as "Are you still at 123 Main Street?" and "Is your phone number still 555-5555?" the crook simply had to acknowledge that the information was correct. Staff should require the customer to authenticate their personally identifiable information rather than acknowledge what is on file.

- Know your customer. If a bank employee thinks a wire request is unusual for a certain customer, they should be empowered to dig further. We had one claim where an 80-year-old customer requested a $750,000 draw from his home equity line of credit to be wired to Australia. When asked what the transfer was for, the purported customer said he was buying a rock quarry. Unusual requests should spark increased due diligence.

- Escalate suspicion. Train your people that if they get a call that sounds suspicious, they should share it with others on the team. Just because one customer service representative wouldn't complete a transaction doesn't mean another attempt won't be made. It is important to talk amongst yourselves. These fraudsters are diligent, so bank employees must be, too. A consistent pattern exists: Crooks don't stop at just one attempt. They will keep calling back until they either get caught or there is no more money.

- If a customer says they can't be reached at the phone number on file, call it anyway.

- Beware of urgency, poor grammar, the word "kindly," and sentences that don't make sense or use improper words.

When these steps are taken and a socially engineered fraudulent instruction attempt fails, celebrate that success. If an employee prevents a fraudulent transaction, spread the news. Share the emailed instructions, discuss what was suspicious about it and post examples of fraudulent instructions. This helps the front-line team remember that attempts at fraudulent transactions are real and are constant. Bank employees must remain vigilant. ■

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PIN Adds Level of Security in Payment Transactions

By: Terry Dooley
Executive Vice President and Chief Information Officer
SHAZAM Network

When authenticating transactions, choosing between one authentication method or another isn't a good strategy. A better approach is to leverage layered authentication, allowing the PIN to serve as the strongest option because the issuer is authenticating the consumer's identity.

SHAZAM

There's a clear trend emerging in the payments industry regarding payment authentication. It's moving from authenticating the consumer to authenticating the transaction or device initiating the transaction. The effects and ramifications aren't yet known; and, combined with countless new entrants into the payments landscape, consumers are using — and loading personal information into — more and more applications to access their accounts. Storing credentials in a third-party app to query other financial institution accounts, investment accounts or reward accounts carries inherent risk, and may have some unintended consequences. One of which occurs when an app is compromised but still has access to the consumer's financial institution or investment credentials and is used to do nefarious things.

This situation reignites the old debate: Can you have a strong, seamless authentication process that doesn't require consumer action, but instead just magically works? This is the trend in payments. In many cases the transaction is being authenticated by the device, not the consumer. One example is the elimination of the consumer's signature for chip-on-chip transactions. PINless chip-on-chip transactions, which generally occur under a certain dollar amount, also operate this way.

The implementation of biometrics — fingerprints, facial recognition, etc. — are used to authenticate a consumer to a device. But that biometric data itself isn't sent to the issuer to verify the consumer; the transaction is authenticated based on the device authentication. A personal identification number is, and continues to be, the only payment authentication method in which the consumer is authenticated by the financial institution.

Plus, while both PIN and biometrics are technically controlled by the consumer, one can be changed, and the other can't. As a consumer, I can have hundreds of different PIN combinations and change them any time I want, but I can't change the biometrics of my ten fingers and toes, and my two eyes.
Like biometrics, many other methods use device-level or transaction-level authentication, such as QR codes, text messages, email addresses and phone numbers. All these options are various representations of a token, just as the consumer's credit or debit card number is a token to reach a consumer's debit, prepaid or other account.

Should the PIN be required on every transaction? Well, it would allow for the least amount of fraud, but it's not a practical approach for many channels. Yet, the PIN, because of its strength as well as its dynamic nature in its ability to be changed by the consumer, can serve as a highly effective secondary authentication method when the need for stronger authentication beyond the device or transaction authentication is needed.

I don't believe choosing between one authentication or the other is a good strategy. A better approach is to leverage layered authentication and the PIN can serve as one of the strongest and most trusted methods because the consumer is being authenticated, not a device. ■

Terry Dooley leads SHAZAM's business and product development, application development, IT infrastructure, corporate and IT security, vendor integration, and security consultation teams. SHAZAM is a national member-owned debit network, processor and core provider delivering choice and flexibility to community financial institutions throughout the U.S. since 1976. SHAZAM is a single-source provider of the following services: debit card, core, fraud, marketing, merchant and more. Learn more about CBI Endorsed Member SHAZAM at shazam.net, and follow them on Twitter @SHAZAMNetwork.

How to Choose the Select Group for a Top-Hat Plan

By: Elizabeth Wendorf
Marketing Manager
Executive Benefits Network

In today's market there is a much stronger focus to recruit, retain and reward your key executives. It is important to ensure your executive's goals are in line with the company's goals and that both the executive and company see a future in one another. Many companies are implementing Top-Hat plans, which are nonqualified deferred compensation plans to a select group of management whom the company values and wants to ensure they remain with the company. These plans are focused on a small group of individuals who are "highly compensated". According to the IRS, for qualified plans a highly-compensated employee is one that has an income of $120,000 (2018).

The question for many companies is how to determine who falls in this select group of management. What makes this even more complicated is that ERISA provides no specific definitions of "select group", "management" or "highly compensated employees." There have been court cases that have helped to provide a framework on who may be considered, which are discussed below.

The factors to consider when selecting the group are both qualitative and quantitative, and include the following:

1. Compensation: Employees who are making more than double other employees are found to be in Top-Hat plans. In the case of Belka v. Rowe Furniture Corp. (571 F. Supp. 1249, D. Md. 1983), the average salary of the participant was three to four times that of the company average.

2. Participation: According the Journal of Financial Service Professionals, "a plan offered to as many as 18.7% of employees was too broad to be a Top-Hat plan, but a plan offered to as many as 15.34% was considered a Top-Hat plan." This was evident in the case Darden v. Nationwide Mutual Insurance Co. (717 F. Supp. 388 (E.D.N.C. 1989), where the plan was offered to the insurance agents who executed the standard agent contract, which ended up being 18.7%, and ended up being considered too large. This is compared to the case of Demery v. Extebank Deferred Compensation Plan (B) (216 F. 3d 283, 2d Cir., 2000), where 15.34% were covered, and it was considered an acceptable size for a select group. Some reports say that 10-12% of the workforce is a more select group.

3. Positions: The type of positions and titles the individuals carry influences who is considered to be in a Top-Hat Plan. Generally accepted job titles include vice presidents and above, and in some cases, directors, assistant vice presidents and managers. In Demery v. Extebank, plan participants had various titles, but the plan was still limited to high valued employees, and showed that even though it covered many titles it was still a select group.

4. Power and Influence: Those individuals that have power to influence the decision-making process and have more power to negotiate their benefits are considered to be Top-Hat status. These individuals also have a knowledge of the company's finances. Employees who do not manage, have little ability to negotiate benefits and pay or have no top-level responsibility, are generally not includable in a Top-Hat plan.

There are many benefits to providing your top management with a Top-Hat plan, both for the employee and employer. ■

Elizabeth Wendorf handles Executive Benefits Network's firm-wide marketing including design of firm materials, event coordination, strategic planning, scheduling and website maintenance. For more information about CBI Endorsed Member Executive Benefits Network, visit ebn-design.com.

Main Street Rural Economic Survey

Rural Mainstreet Index Falls for April, Below Growth Neutral in May:

More Than One-Fifth of Bankers Expect Flood Loan Defaults; Farm Loan Defaults Expected to Double from 2017 Rates

April 2019 Survey Results at a Glance:

- For the fifth straight month the overall index has remained at or above 50.0.
- More than one-fifth of bankers, or 21.9 percent, expect an increase in farm loan defaults stemming from recent floods.
- Farm loans soared to their highest level since initiation of survey in 2006.
- Approximately 43.8 percent of bankers reported that recent floods have had a negative impact on the local economy.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index (RMI) for April stood at growth neutral for the month. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the RMI has now remained at, or above, growth neutral 50.0 for five straight months.

Overall: The overall index slipped to 50.0 from 52.9 in March. Since falling below growth neutral in November of last year, the overall RMI has risen above the growth neutral value. The index ranges between 0 and 100 with 50.0 representing growth neutral.

"Our surveys over the last several months indicate the Rural Mainstreet economy is expanding outside of agriculture. However, this month, 43.8 percent of bank CEOs indicated that the recent floods were having a negative impact on their local economy," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

As detailed by Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa, "The recent flood event has been devastating to southwest Iowa and eastern Nebraska. It has been a very frustrating process for homeowners, farmers and other businesses who have been unable to get into their homes or businesses because safety issues continue to be a concern."

Farming and Ranching: The farmland and ranchland-price index for April rose to 45.2, its highest level since February of last year, and up from March's 36.4. This is the 65th straight month the index has remained below growth neutral 50.0.

The April farm equipment-sales index sank to 27.4 from March's 32.8. This marks the 68th straight month that the reading has fallen below growth neutral 50.0.

Bankers were asked which farmers sustained the greatest economic damages from the floods in their area. Of bankers reporting farm flood damage, approximately one-half indicated grain farmers incurred the greatest economic damage, while 40 percent indicated the greatest flood damage was sustained by livestock operators. The remaining 10 percent indicated the greatest flood damage was sustained by farm residences.

CLICK TO READ MORE OF APRIL'S SURVEY

May 2019 Survey Results at a Glance:

- For the first time since November the Rural Mainstreet Index (RMI) fell below growth neutral.
- Bank CEOs project the percentage of farm loan defaults over the next 12 months will double the default rates for 2017.
- In reaction to weak farm income, almost two-thirds of bankers have increased collateral for farm loans.
- More than one in four bankers reports rejecting a higher percentage of farm loans due to declining farm income.
- The economic confidence index dropped to its lowest level in almost two years.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index (RMI) for May slumped below growth neutral for the month. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the RMI for May indicated negative growth for the month for the region, after five months of growth.

Overall: The overall index for May slipped to 48.5 from 50.0 in April. This is the first time since November of last year the index has fallen below growth neutral, indicating negative growth for the month. The index ranges between 0 and 100 with 50.0 representing growth neutral.

"The trade tensions and tariffs are hammering the farming economy. Grain farmers throughout the region continue to experience losses produced by trade issues and plentiful global supplies. On the other hand, the expanding U.S. domestic economy is supporting livestock producers in the region. For May, according to bankers, the negatives far outweighed the positives," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

According to Lonnie Clark, president of the State Bank of Chandler in Chandler, Minnesota, "The current low farm commodity prices are a negative to farmers."

Farming and Ranching: The farmland and ranchland-price index for May sank to 41.2 from April's 45.2. This is the 66th straight month the index has remained below growth neutral 50.0.

The May farm equipment-sales index increased to 31.3 from April's 27.4. This marks the 69th straight month that the reading has fallen below growth neutral 50.0.

As stated by Jim Eckert, president of Anchor State Bank in Anchor, Illinois, "Our area has been very wet, although not as wet as some areas I saw in Indiana last weekend. Very little farm work has been done here and when it dries a bit, farmers will be forced to plant in less than optimum field conditions."

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 2019: One Year Ago and Last Two Months (index > 50 indicates expansion)	April 2018	May 2018	March 2019	April 2019	May 2019
Area economic index	53.5	56.3	52.9	50.0	48.5
Loan volume	68.7	74.3	76.7	81.3	79.7
Checking deposits	56.0	43.9	42.4	50.0	42.4
Certificates of deposit and savings instruments	45.3	40.9	47.1	50.1	51.5
Farmland prices	42.9	42.2	36.4	45.2	41.2
Farm equipment sales	37.8	43.8	32.8	27.4	31.3
Home sales	57.1	62.1	52.9	59.4	63.2
Hiring	64.0	56.0	65.7	59.7	61.8
Retail business	53.6	46.9	48.5	48.4	44.1
Confidence index (area economy six months out)	50.0	50.0	45.7	50.0	38.2

Table 2: Rural Mainstreet Economy April 2019	Percentage of bankers reporting				
	Farm residences	Livestock operations	Grain operations	Little or no loss	
Which of the following sustained the greatest economic damage from March floods in your area?	3.2%	12.9%	16.1%	67.7%	
	Little or no impact	Modestly Higher	Higher but not significant	Significantly Higher	
Regarding farm loan defaults resulting from recent floods, which of the following represents your expectation?	78.1%	9.4%	12.5%	0.0%	
	Little or no impact	Modestly negative	Negative	Significantly negative	Catastrophic impact
What has been, or will be, the impact of recent floods on your local economy?	56.3%	25.0%	9.4%	9.5%	0.0%

Table 3: Rural Mainstreet Economy May 2019	Percentage of bankers reporting				
	Decline	Unchanged (-0.9% - +0.9%)	Increase by 1% - 9%	Increase by 10% - 20%	
Regarding farm loan defaults in your area over the NEXT 12 months, what do you expect?	0.0%	20.6%	64.7%	14.7%	
		Modestly Higher	Higher but not significant	Significantly Higher	
Regarding hiring at your bank and businesses in the area, the lack of qualified and/or skilled workers is having:	78.1%	9.4%	12.5%	0.0%	
	Reduced size of farm loans	Increased interest rates	Rejected higher % of farm loans	Increased loan collateral require	No changes in lending
Which of the following has been your bank's response to weak farm income:	8.8%	35.3%	41.2%	61.8%	20.6%

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

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