NOV/DEC 2018

the COMMUNITY BANKER UPDATE

NOVEMBER/DECEMBER

OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS OF IOWA

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MORE INFO	Dec. 11	Call Report Series: Improving Efficiency in Call Report Preparation: Documentation, Accuracy & Common Errors
MORE INFO	Dec. 12	Your Depositor Has Died: Actions to Take, Mistakes to Avoid
MORE INFO	Dec. 13	Dealing with Joint Signers in Consumer & Real Estate Lending
MORE INFO	Dec. 14	Commercial Appraisal Review: Income & Sales Approach
MORE INFO	Dec. 17	Managing the Force-Placed Insurance Process
MORE INFO	Dec. 18	Handling Government ACH Payment Returns & Reclamations
MORE INFO	Dec. 19	Closing or Changing Deposit Accounts for Consumers & Businesses
MORE INFO	Dec. 20	BSA Officer Reports to the Board
MORE INFO	Jan. 8	Record Retention & Destruction Rules: Paper & Electronic
MORE INFO	Jan. 9	Credit Analysis & Underwriting Series: Regulator Issues & Update for the Credit Analyst
MORE INFO	Jan. 10	Teller Training Series: Compliance Training for the Frontline
MORE INFO	Jan. 14	FFIEC Exam Procedures for Business Continuity
MORE INFO	Jan. 15	2018 HMDA Submission Due March 1, 2019, Part 1: Identifying Reportable Loans, Data Integrity & FIG Analysis
MORE INFO	Jan. 16	Call Reports 2019 Update

2019 CBI Event Schedule

Not an exhaustive list of all live events; dates are subject to change.

February 21
- LOT Quarterly Meeting

March 30 - April 6
- Money Smart Week

April 3
- CBI Legislative Reception

April 4-5
- LOT 17th Annual Leadership Conference

May 30
- CBI Ag Conference

July 17-19
- CBI 48th Annual Convention

September 9
- CBI 12th Annual Golf Tournament

September 10
- LOT Quarterly Meeting

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

Other Industry Events:

March 18-22
- ICBA National Convention

March 19
- IBA Banker Day on the Hill

April 16-17
- SHAZAM Forum

April 18
- Day with the Superintendent

April 28 - May 1
- ICBA Capitol Summit

In This Issue

CBI Community Bankers of Iowa

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CBI Education Foundation

Consider the Future of Community Banking In Your Holiday Giving

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
- 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.

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 CBI at 515-453-1495. ■

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

CBI Offers Over 140 Webinars in 2019

Get Affordable, Professional Training When and Where You Choose

CBI offers over 140 webinars annually that have become one of the most popular training delivery systems among community bankers. Covering critical issues for every level of the financial institution, industry experts with long-term, real-life, hands-on experience deliver high quality webinars that are exclusively tailored for community bankers. Topics range from auditing & accounting, collections, compliance, HR, lending and more. Also offered are specialized series for directors, emerging leaders, call reports and cybersecurity to name a few.

In 2019 CBI will also offer ELEVEN specialized webinar series: ACH Specialist series, BSA series, Board Reporting series, C-Suite series, Call Report series, Consumer Collection series, Credit Analysis & Underwriting series, IRA series, Mortgage Lending Hot Spots series, Regulation E series, and the Teller Training series. Visit our Webinars page for more details on each of these informative topics.

CBI webinars have three registration options:

1. **LIVE WEBINAR.** The live webinar option allows you to have one Internet connection from a single computer terminal. You may have as many people as you like listen and watch from your office computer. Registrants receive a website address and pass code that will allow entrance to the seminar. The session will be approximately 90 minutes, including question and answer sessions. Seminar materials, including instructions, pass code, and handouts will be emailed to you prior to the broadcast. You will need the most-current version of Adobe Reader, available free at www.adobe.com.

2. **RECORDED WEBINAR.** Can't attend the live webinar? The recorded webinar is a recording of the live event, including audio, visuals, and handouts. We even provide the presenter's email address so you may ask follow-up questions. Approx. one week prior to the webinar, you will receive an email with the archived webinar link. This webinar link can be viewed anytime 24/7, beginning 6 business days after the webinar and will expire 6 months after the live program date. You will also receive instructions on how to download a digital copy of the webinar which you may keep and use indefinitely. You can also listen to archived webinars on your iPad, iPhone, or Android device!

3. **BOTH LIVE WEBINAR & RECORDED WEBINAR LINK.** Options 1 and 2 described above.

For more information and to view current webinar offerings, visit our Events Calendar. To view all 2019 offerings visit the Webinars page on cbiaonline.org and download a schedule.

Still have questions? Contact Pretty Patel at 515.453.1495 or ppatel@cbiaonline.org. ■

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.

Announcing the 2019 CBI Speakers Bureau Guide

Your Resource to Find Industry Presenters for Your Seminars and Events

Need a speaker for your next event or seminar? CBI has done the research for you! The 2019 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 2019 CBI Speakers Bureau Guide is completely digital and free of charge.

To download the 2019 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 2019 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. ■

CLICK HERE to download your FREE copy of the 2019 CBI Speakers Bureau Guide!

CRAfting a Merger:

Agencies Revamp Application Questions Concerning the Community Reinvestment Act

Written By: ***Caitlin B. Houlton Kuntz***
Associate
Fredrikson & Byron, P.A.

This past July, the agencies released updated versions of several Interagency documents, one of which was the Interagency Bank Merger Act Application. The merger application contained several changes—primarily clarifications and expanded questions to cut down on some of the usual follow-up and supplemental submissions. Those who have not had occasion to file an application in the last few months may not have noticed one particularly intriguing change: Questions 10 and 11 concerning the Community Reinvestment Act (CRA) were significantly expanded.

CRA has been a topic of much conversation and speculation lately, as the now 40-year-old legislation begins the process of a much-needed refresher. A good CRA rating has long been a criterion for the regulators to approve merger transactions, and CRA concerns have held up merger transactions in the past. Thus, banks must take care that CRA considerations do not fall by the wayside when preparing for a merger.

New Question 10, which addresses how the applicant will meet the "convenience and needs of the community," digs deeper than its previous iteration. Question 10 now asks what research or due diligence the applicant has done to ascertain the needs of the community to be served and inquires further into plans for introducing or discontinuing products and services. Applicants must now prove they can do a good job for the community.

Old Question 11 examined the record of performance of the institutions involved and was more retrospective. The new, expanded question specifically asks how the resultant institution will plan for and comply with CRA in the future:

Question 11. Describe how the applicant and resultant institution will assist in meeting the existing or anticipated needs of its community(ies) under the applicable criteria of the Community Reinvestment Act (CRA) and its implementing regulations, including the needs of low- and moderate-income geographies and individuals. This discussion should include, but not necessarily be limited to, a description of the following:

a. The significant current and anticipated programs, products, and activities, including lending, investments, and services, as appropriate, of the applicant and the resultant institution.

b. The anticipated CRA assessment area(s) of the resultant institution. If the resultant institution's CRA assessment area(s) would not include any portion of the current assessment area of the target or the applicant, describe the excluded area(s).

c. The plans for administering the CRA program for the resultant institution following the transaction.

d. For an applicant or target institution that has received a CRA composite rating of "needs to improve" or "substantial noncompliance" institution-wide or, where applicable, in a state or a multistate Metropolitan Statistical Area (MSA), or has received an evaluation of less than satisfactory performance in an MSA or in the non-MSA portion of a state in which the applicant is expanding as a result of the transaction, describe the specific actions, if any, that have been taken to address the deficiencies in the institution's CRA performance record since the rating.

Parts (a) and (d) are derivations of the previous question; Parts (b) and (c), however, are new. Part (b) rings familiar for anyone who has followed the handful of redlining cases pursued by the Department of Justice over the last few years. Many community banks are taking a closer look at their own geographic footprints and assessment areas in the wake of such cases, and this new question suggests that the agencies are as well.

Perhaps these revamped questions are designed, in part, to prompt an applicant to think more proactively about its current CRA program and what adjustments might be necessary to accommodate its expanded and potentially evolved market following the transaction. How will the applicant's market demographics change? Do the members of the newly-added communities have different needs or market conditions than those in the applicant's current communities, and if so, how is the applicant preparing to address them? What majority-minority census tracts might be included in (or excluded from) the resultant institution's assessment area? Will there be new opportunities for financial education programs or community sponsorships? Certainly, some of these questions will be more relevant to some institutions than others, but the point is to start asking those questions–and asking them earlier and louder.

Clearly, the agencies are paying closer attention to CRA in merger transactions than before...but to what end? Time will tell. As of September, very few updated applications are available for review, so it is not yet clear what depth of responses the agencies expect or how this information might play into their analysis. Banks who see a merger application in their future will need to thoughtfully strategize not only how to best respond to these questions, but how any anticipated mergers will fit into and affect their overall CRA compliance plan. ■

For more information on CBI Affiliate Member Fredrikson & Byron, P.A., visit www.fredlaw.com. Associate Caitlin B. Houlton Kuntz can be reached at 612-492-7218 or choultonkuntz@fredlaw.com.

Employment Law Update

Educational, Best Practices Event for HR Professionals

February 7, 2019 in Bettendorf

Almost every decision made as an HR professional is fraught with legal landmines that can bring frustration, fear, and lawsuits. Join CBI Endorsed Member MRA's legal experts at the Quad-Cities Waterfront Convention Center in Bettendorf as they untangle misconceptions and eliminate confusion. Expert attorneys will cover #MeToo, hiring best practices, immigration alerts, workplace violence, along with Iowa, Illinois, and Federal law changes affecting business, and more.

At MRA's annual Employment Law Update you will walk away with an understanding of the latest employment-related legal developments and how to deal with them effectively.

6 HRCI/SHRM credits applied are availble for attendance at this event. For more information and to register, visit MRA's website. ■

First Look at 2019 Farm Financial Conditions

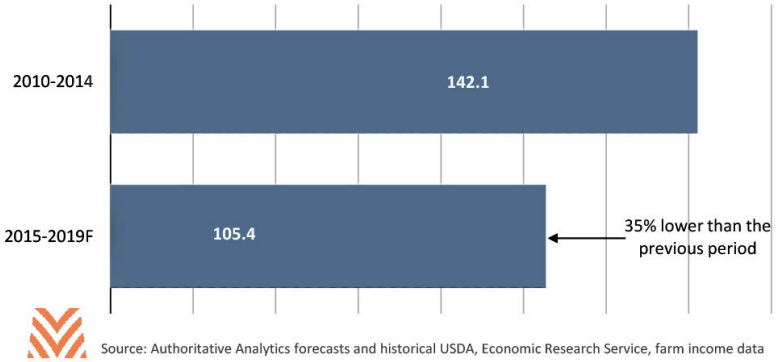
Written By:
Mitch Morehart, Owner and Founder
Authoritative Analytics
Reprinted from The Feed–Winter 2018 – Farmer Mac

FARMER MAC

Earlier this year, Authoritative Analytics contributed its estimate of the USDA's then-impending 2017 farm income estimates and an updated forecast of 2018's farm financial conditions to the Summer edition of The Feed. A few months later, the USDA revised its final 2017 farm income estimates in its August estimate release, as Authoritative Analytics projected. With the corn and soybean harvest well underway, Authoritative Analytics' updated 2018 forecast projects 2018 net cash income at $98.4 billion. This is several billion dollars above the USDA's current forecast, primarily due to Authoritative Analytics' inclusion of USDA's Market Facilitation Program (MFP) payments.

Authoritative Analytics has also provided its initial 2019 forecasts for the farm economy, giving a first glimpse at the sector's profitability potential in 2019. The Authoritative Analytics projection for 2019 net cash income is $95.8 billion which, if realized, would represent an almost 3 percent decline from the 2018 forecast. After adjusting for inflation, the Authoritative Analytics' 2019 net cash income forecast would be the lowest since 2009. Another year of lower profitability would mark the fifth year that net cash income has been in the current lower range. Inflation-adjusted sector cash earnings over the most recent 5-year period (2015-2019F) would be nearly 35 percent lower than in the 2010-14 period (Figure 1).

Figure 1: Average Inflation-Adjusted Net Cash Income by Period



REVENUES AND EXPENSES

Lower revenues have been a primary driver of the sector's lower net cash income level. The sector's average gross cash income is forecast to be down more than 24 percent when adjusted for inflation. As commodity cash receipts comprise most of the sector's gross revenues, much of the cause has been relatively low crop and livestock prices. Comparing the projected outcome for the current 5-year period with the previous 5-year averages illustrates this, with inflation-adjusted crop receipts down 15 percent and receipts for animals and animal products down 7 percent.

Although 2019 commodity revenues are likely to remain below the 2010-14 levels, the initial forecast suggests that they will look relatively similar to 2018 levels. Looking specifically at the 2019 forecast, crop receipts would be almost 2 percent higher than the current 2018 forecast. Corn receipts are projected to be up 4 percent on increasing acres as lower soybean prices are expected to impact planting decisions. Conversely, soybean receipts are expected to be slightly lower than in 2018 with declining acres planted and similar pricing. Animal and animal product receipts are projected to be 2 percent higher in 2019, with gains for dairy and cattle outpacing the expected declines in hog and poultry receipts.

Government payments to farmers is another area where revenues are currently expected to pull back in 2019 to $7.8 billion. The USDA has indicated that a second round of MFP payments is likely in late 2018, but it has not indicated an amount for those payments. Therefore, no additional funds are included in the 2019 forecast at this time, leading to a $4.2 billion year-over-year reduction in payments ($0.5 billion of the announced $4.7 billion in MFP payments are assumed to be paid in 2019). Since a new Farm Bill has not been passed, Authoritative Analytics expects other government program payments to revert to baseline payment levels under a continuation of existing policy.

Authoritative Analytics forecasts crop insurance payments will increase by $1.6 billion in 2019 due to farmers receiving indemnity payments associated with hurricane damage in the fall of 2018 (Hurricanes Florence and Michael). These additional payments are slated for Southeastern states, which experienced the most severe impacts from high winds and rain.

Unfortunately, farmers are not projected to see their expenses decline along with their revenues in 2019. After expenses declined for two consecutive years in 2015 and 2016, the costs of producing the nation's food and fiber have increased by roughly 2 percent each year since. As a result, many producers have seen their profit margins reduced. There have been some savings on energy costs, but the improving macroeconomy could cut into

these reductions. Producers will also have to contend with rising interest, seed, and labor costs in 2019.

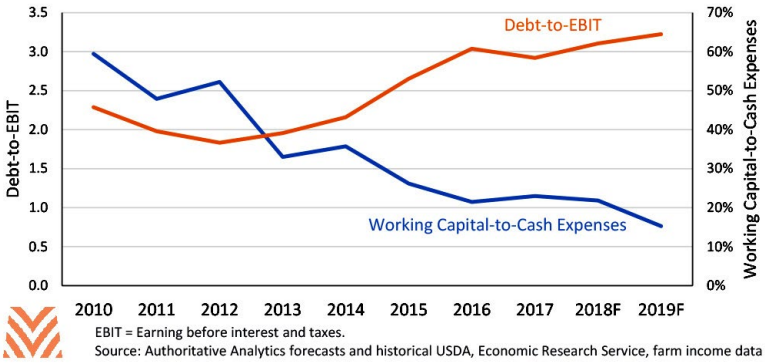
FARM FINANCIAL CONDITIONS

The farm sector's leverage position stands in contrast to the income situation. Despite lower profitability, farm sector asset levels have been resilient. Over the past five years, total assets were on average 6 percent higher than the 2010-2014 period even after adjusting for inflation. Much of this difference has to do with growth in national farm real estate values, which remain above 2010-14 levels, despite sluggish growth over the last few years.

However, some signs of the industry's lower profitability have begun to appear in the sector's balance sheet. After adjusting for inflation, Authoritative Analytics' 2019 projection for farm debt is the highest in over 36 years. At the same time, sustained low levels of farm income and rising interest rates have led farm real estate value growth to slow. Accordingly, debt has also been increasing faster than assets in recent years. This has led the sector's debt-to-asset ratio to rise somewhat, while the amount of debt relative to sector cash flows has increased more markedly, rising to levels last seen in the mid-1980s (Figure 2).

The outlook for continued lower income levels is also expected to continue weighing on the sector's liquidity. The sector's working capital divided by cash expenses has been deteriorating since 2014 and is projected to fall to 15 percent in 2019 (Figure 2). A common heuristic is that a business should have enough cash

Figure 2: Farm Sector Leverage and Liquidity



EBIT = Earning before interest and taxes.
Source: Authoritative Analytics forecasts and historical USDA, Economic Research Service, farm income data

available in working capital to cover five months of operations expenses; the farm sector could have less than two months of expenses in cash reserves if these forecasts of declining working capital and rising expenses are realized in 2019.

This early look at 2019 requires myriad policy, pricing, and political assumptions. Areas of uncertainty include a second round of MFP payments (which could raise the forecast to 2018 levels), additional clarity on trade relations, and the path of inflation and interest rates. ■

Mitch Morehart is Owner and Founder of Authoritative Analytics. For more information on CBI Affiliate Member Farmer Mac, visit www.farmermac.com.

Welcome New CBI Members!

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

Citizens First National Bank
Early • Storm Lake

City State Bank
Grimes • Madrid • Martensdale
Mount Ayr • New Virginia

Tractor Zoom, Inc.

From the Top

Written By: Timothy Zimmerman, Chairman of ICBA

They say the days are long and the years are short. This is often used in the context of raising children, but it's just as relevant for community bankers in 2018. While our days were sometimes a grind, together we achieved numerous historic advocacy gains that have had tangible benefits for community bankers.

We started 2018 digesting and implementing generational tax reform, which passed at the end of 2017 and features significant reductions in tax rates. Meanwhile, we kept our focus on pushing forward for regulatory relief.

"We're already experiencing the tangible benefits."

Thanks to the cumulative impact of grassroots calls and emails, op-eds, petitions and meetings, the Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155) was passed and signed into law with strong bipartisan support! This landmark law unravels many of the suffocating regulatory burdens community banks face. For community bankers, it is already paying dividends and providing real regulatory relief.

Let's start with mortgage lending. The expanded "qualified mortgage" safe harbor for portfolio loans will benefit the vast majority of community banks. The agencies have begun to act on the exemption from expanded Home Mortgage Disclosure Act reporting, shielding many local banks from this excessive regulatory burden. Meanwhile, they're working to implement relief from mandatory escrow requirements. For those community bankers who have considered leaving the mortgage lending market due to the regulatory headaches, these and other provisions could be a game changer.

Or how about the broader regulatory reporting environment? S.2155 implements a short-form call report, expands access to the 18-month exam cycle, exempts most community banks from the Volcker Rule, simplifies capital rules and eliminates Dodd-Frank stress testing for larger community banks. This all adds up to a far more efficient and manageable regulatory regime, allowing community bankers to focus more on what we do best: serving our customers and communities.

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Amid these policy improvements, we're also enjoying a welcome change in the "tone from the top" or culture of the banking agencies. The regulatory heads have professed a commitment to transparency, innovation and congressional intent while they've begun transforming their agencies to restore trust among community bankers and other regulated entities.

As 2018 comes to a close, the community banking industry stands far stronger than it did at the beginning of this whirlwind of a year. The concrete policy gains that we achieved are already helping our banks thrive. I am confident that we will be able to continue building on these accomplishments in 2019. It'll be here before you know it. ■

Timothy Zimmerman is CEO of Standard Bank in Monroeville, Pennsylvania. Connect with Tim @TimZimPgh.

Flourish

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

With the holidays and New Year just on the horizon, it's a time for all of us to reflect on 2018 and what it meant for us personally, professionally and, as it often is for community bankers, a mix of both.

We can reflect on the historic regulatory relief victory in May in the form of S.2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act. This was a success of our doing after years of advocacy and passionate storytelling about what regulatory relief would mean for our banks and the communities we serve.

"We must all pause this holiday season and appreciate the people who make this industry what it is."

We can reflect on being at the forefront of innovation. In October, we led the way by partnering with The Venture Center to launch the ICBA ThinkTech Accelerator. Through this exciting initiative, we will bring community banks, early-stage fintechs and key stakeholders to the table to identify challenges, solve problems and, ultimately, provide more opportunities for economic growth and development in communities throughout America. What an incredible opportunity.

And we can reflect on the many friendships we forged and grew throughout the year, often at events like ICBA Community Banking LIVE or our respective state conventions. These were opportunities to gather with friends while moving our great industry forward.

In looking back at 2018, I can't help but think of Kurt Yost, whom we lost in October. Kurt was president and CEO of Nebraska Independent Community Bankers for 34 years and was one of the community banking industry's greatest champions.

My inbox has been flooded with emails in the weeks since his passing—messages from community bankers across the country sharing their stories about how Kurt was such an incredible friend, advocate and all-around amazing person.

Anyone who knew Kurt could always expect a hug, an attaboy and his smile, which would go from ear to ear. The minute he walked into a room, whether he was hosting or participating, he made you feel welcomed—he always made me feel welcomed. Kurt was a powerfully positive presence wherever he was and in whatever he did.

And while he gave his heart and soul to his members, community, state and industry, he was also a problem solver who called it like it was. He was, without a doubt, a game changer. Thank you for everything that you were and everything you accomplished for our industry, Yostie. We will miss you immensely.

And this is exactly why we must all pause this holiday season and appreciate the people who make this industry what it is: something unique, something special, something to be grateful for.

Thank you, community bankers, for all you do. I wish you the happiest of holidays and the warmest of wishes for the New Year. ■

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

How 'Bout Them Dogs?

Put unrealized losses to good use

Written By: Jim Reber
President and CEO
ICBA Securities

This just in: community bank investment portfolios have lost value in 2018. The rest of this column contains good news. At least, it does for those community bank portfolio managers who are interested in improving future earnings, creating a more diversified collection of bonds, tweaking their risk profile and, yes, deferring income. I hope that includes you.

Before we get into the numbers, and at the risk of being Master of the Obvious, I want to mention that all of the decline in value this year is for the purest of reasons: rising interest rates. In the recent past (i.e. the last decade), there have been certain securities whose prices had plummeted because either credit quality had deteriorated or spreads had widened. Two of the more notable examples of this are the cratering of Fannie Mae/Freddie Mac Preferred Stock in the aftermath of their being placed in receivership in 2008, and a couple of episodes of disruption in the muni market. Does Meredith Whitney on "60 Minutes" ring a bell?

Where we are

Even though we're now a full three years into this rising rate cycle, bond prices have really been quite stable until just recently. The Fed first hiked overnight rates in December 2015 after warning that it might for several meetings. By the end of that year, the typical community bank had a modest unrealized loss of about 30 basis points (0.30 percent).

Fast forward two years, to December 2017, and those losses, on average, were still only 50 basis points. The cause of the relative price stability was two-fold. First, the Fed was moving quite slowly, as there were only four rate hikes in that two-year period. Second, credit spreads on most of the bonds banks owned tightened during that period. As the economy improves, the required incremental yields over those of benchmark Treasuries normally shrink, and such was the case here too.

Today, those losses on average are approaching 3 percent. That means a $100 million portfolio is $300,000 underwater. Many community banks have not a single bond that's owned at an unrealized gain. If your portfolio sounds like this, you're in good company. This also represents an opportunity.

Build for the future

If you ask your tax accountant if income deferral is a sound tax-planning and cash flow strategy, you should first set your stopwatch to see how long it takes to receive a "yes." Selling some underwater bonds, which some might term "dogs," and buying other securities that have higher market yields will push income into future periods. It will also delay some payment of income tax to Uncle Sam.

So far this year, the banking industry's earnings are about 20 percent ahead of last year. That's due to both a still-improving lending environment and (as you may have heard) tax reform. Chances are that your institution could selectively sell some bonds this year and still meet its earnings goals, with all future years also benefiting.

Look both ways

As you investigate your opportunities, a few bond-swap reminders are in order. First, economically, the best bonds to sell are the ones with the lowest current market yields. Examples of these could be short bullet agencies or "pre-refunded" munis. Your brokers could use the term "take-out yield" as a synonym for market yield.

Also, and this may be academic at this point, it's very difficult to make the math work by taking a gain on a tax-free bond. However, it can be beneficial to buy tax-free securities to replace bonds sold at a loss. Your broker can demonstrate the economics of this "tax swap" strategy.

Finally, from a timing standpoint, it's wise to act sooner rather than later as year end approaches. The liquidity in the bond market often starts to evaporate by mid-December, so you'll want to stay ahead of that likelihood. And, if it's more advantageous to take some losses in the next calendar year, think about pulling the trigger by mid-January. Having nearly an entire year to start making up the realized losses will help the 2019 results.

There are plenty of reasons to think about taking some losses now, and this column contains just a few of them. Your broker-dealers can help you and your management team identify which "dogs" can be converted into "winners" for future periods. ■

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

CBI Hall of Fame Member Spotlight:
Protecting Iowa's Community Banks

CBI Endorsed Members and 2018 Hall of Fame Sponsors EMC Insurance / Bankers Solutions provides competitively priced bank-specific property and casualty insurance products, designed to help efficiently manage risk inherent in a community bank's daily operation. They bring best-in-class products at premiums commensurate with CBI Member banks' asset sizes and risk models, thru their chosen local agents in their communities. This saves community banks on insurance costs, and keeps the dollars local wherever possible. Though by no means an exhaustive list of products on offer, EMC Insurance specializes in P&C Insurance, General Liability and Workers' Compensation. Endorsed by CBI since 1995, Bankers Solutions offers Risk Management Insurance, D&O–E&O, Blanket Bond and Excess Deposit insurance products. Both are committed to creating the proper solution for the specific risk management needs of each bank.

As an Iowa-based regional insurance carrier, EMC Insurance/ Bankers Solutions supports local charities & educational opportunities, and have had a significant impact on the local Iowa economy in all parts of the state. They practice the "Buy Local" mantra that CBI has modeled over the years, thru 400 agents just in Iowa communities alone.

EMC / Bankers Solutions believes their services can have huge impact locally, so when weather-related losses or serious accidents happen, they take the utmost care in responding and paying claims promptly and accurately, thru use of local repair shops and contractors chosen by the insureds. They also provide loss control services for both pre-loss prevention, and post-loss analysis.

EMC Insurance / Bankers Solutions would like to convey their sincere gratitude to CBI Member banks for their partnership, and look forward to continuing to earn that opportunity. CBI would also like to thank these companies for their long-time support and their commitment to the preservation of community banking!

For more information on CBI Endorsed Member EMC Insurance, contact Jeff Less at 515-345-2503 or jeff.t.less@emcins.com. For more on CBI Endorsed Member Bankers Solutions, contact Tom Vande Kamp at 515-276-8512 or iwright98@aol.com. ■

Leveraging Customer Data for Growth

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MAIN STREET

A recent survey revealed that 57% of banks say internal silos are their biggest obstacles to big data success. Sharing customer data across departments and even across marketing channels can be challenging, but the benefits are worth it.

Your bank may not be leveraging retail customer data to its' full potential, but the good news is that it is a big opportunity...and it can be easy to implement. Customer segmentation analysis transforms a basic customer and address list into an insightful and powerful targeting tool.

Data has the power to drive customer acquisition, improve customer relationships, unlock new opportunities and increase profitability. Analytics provides the knowledge to empower your institution to drive retail customer growth.

How can data drive your growth strategies? There are typically three basic questions marketers ask themselves.

- Where are my customers coming from?
- Who are my customers?
- How can I find my best potential customers?

The best way to unveil your most profitable targets is by gaining a detailed understanding of your existing retail customers. Think about your branches. How is each one unique? How are the customers you serve at each branch different? How do the market areas for each branch vary? How can you understand those differences to drive growth at each branch strategically?

Every location has unique differences.
Understanding your various customers and the trade area differences that exist allows you to market to those differences to accelerate growth. Identifying key characteristics of your customers at each branch improves your ability to invest and trim marketing dollars in order to improve advertising efficiency and drive ROI.

If customer data is so powerful, why don't most community banks leverage it? Here are a few common myths we often hear from community banks.

MYTH: "As a community bank executive, I know my customers like the back of my hand. I don't need analytics."

Recently, I asked two community bank executives from the same institution who their customer was. They both gave me completely different answers based on their day to day interactions with customers. Analyzing their data showed that their customer base is made up of different types of consumers with varying demographics, spending behaviors and financial propensities. And those customer types look different across their branches. Analytics helps you move from thinking you know who your customer is to knowing who your customer is.

MYTH: "Customer analytics costs too much for a financial institution my size."

Instead of investing substantial time, money and resources into a customer analytics platform, a financial institution might partner with a service provider that provides affordable customer analytics & segmentation solutions.

A targeted approach gets results.
Understanding your customer's DNA can serve as a blueprint for locating the best potential customers for each branch and how best to reach them based on their media preferences and likelihood to utilize your products. Before receiving their customer analysis, one of our clients thought the best way to reach the local Hispanic community was through commercials on a select local TV station. But, analysis showed the local Hispanic residents preferred newer television shows and weather programming early in the morning. This knowledge armed the institution with the intelligence needed to execute relevant marketing strategies to the right audience at the right time. As a result of this targeted approach driven by the analytics, they experienced a 50% increase in new Hispanic customers.

Banks find themselves in the same situations as many SMBs. To grow, they need to know more about their customers and prospects—where they live, what motivates them, and how to reach them. With so much customer data at your fingertips, intuition alone is no longer an acceptable growth strategy.

According to Capgemini Consulting, banks that apply analytics to customer data have a four percentage point lead in market share over banks that do not.

Budgets are not endless. At the end of the day, acquiring new customers can be costly. Using customer data-driven profiles & actionable strategies will improve your marketing efficiencies across your media channels and improve response rates, resulting in better ROI. ■

For more information on CBI Affiliate Member Main Street Inc., visit mainstreetinc.com. Contact VP of Marketing Samantha Vance at 205-323-0270 or SVance@mainstreetinc.com.

See full lists of CBSI providers at cbiaonline.org

Join the growing list of Endorsed Partners of Community Bankers of Iowa!
For more details on the endorsement process, please contact Jackie Haley, Membership Services Director at 515.453.1495 or jhaley@cbiaonline.org.

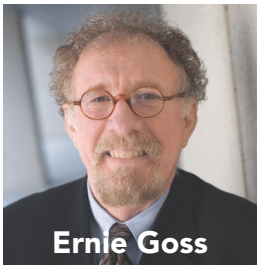
Do You Know About Community Bankers Services & Insurance (CBSI)?

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. ■

Main Street Rural Economic Survey



Rural Mainstreet Index Expands for Oct., Lowest in 10 Months in Nov:

Bankers Expect Farmland Prices to Continue Decline, Over 1/3 of Bank CEOs Want Tariffs Cut

October 2018 Survey Results at a Glance:

- For a ninth straight month, the overall index rose above growth neutral.
- On average, bankers estimated that farmland prices declined by 4.0 percent over the past 12 months and expect farmland prices to fall by another 3.2 percent over the next 12 months.
- Approximately one-fifth of bank CEOs expect low farm income and falling farmland prices to present the greatest challenge to banking operations over the next 5 years.
- Loan demand by farmers remains strong.

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

Overall: The overall index expanded to 54.3 from 51.5 in September. The index ranges between 0 and 100 with 50.0 representing growth neutral.

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

James Brown, CEO of Hardin County Savings Bank in Eldora, Iowa, said, "Deteriorating crop conditions and the late harvest are the overriding concerns with our farmers."

Farming and Ranching: The farmland and ranchland-price for October sank to 34.8 from 37.5 in September. This is the 59th straight month the index has fallen below growth neutral 50.0.

Bank CEOs were asked to estimate the change in farmland prices over the past 12 months and for the next 12 months. On average, bankers estimated that farmland prices declined by 4.0 percent over the past 12 months and expect farmland prices to fall by another 3.2 percent over the next 12 months.

According to Fritz Kuhlmeier CEO of Citizens State Bank in Lena, Illinois, "More than ever, farmland values are extremely dependent upon quality, and location, location, location."

The October farm equipment-sales index fell to 33.3 from September' 35.9. This marks the 62nd consecutive month that the reading has moved below growth neutral 50.0.

CLICK TO READ MORE OF OCTOBER'S SURVEY

November 2018 Survey Results at a Glance:

- Overall index falls below growth neutral for first time since January.
- Approximately 37.5 percent of bank CEOs support reducing recently enacted tariffs on imported goods.
- On average, bank CEOs expect holiday retail sales in their area to expand by only 1.7 percent from last year.
- On average, bankers project that farm loan defaults will rise by 5.0 percent over the next year.

OMAHA, Neb. – The Creighton University Rural Mainstreet Index for November fell below growth neutral for the first time since January of this year, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The overall index sank to 49.9, its first sub-growth neutral reading since January of this year, and down from October's 54.3. The index ranges between 0 and 100 with 50.0 representing growth neutral.

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

Approximately 37.5 percent of bank CEOs support reducing recently enacted tariffs on imported goods.

Jeffrey Gerhart, CEO of the Bank of Newman Grove, Newman Grove, Nebraska, said, "Farmers continue to feel the negative impact of tariffs and that impacts their ability to make a buck. Farmers do not need this kind disruption in their markets. This is bad policy from the White House."

Farming and Ranching: The farmland and ranchland-price for November increased to 35.9 from 34.8 in October. This is the 60th straight month the index has fallen below growth neutral 50.0.

Bank CEOs were asked to estimate the change in farm loan defaults over the next year in their area. On average, bankers project that farm loan defaults will rise by 5.0 percent over the next year.

The November farm equipment-sales index fell to 30.6 from October's 33.3. This marks the 63rd consecutive month that the reading has moved below growth neutral 50.0.

According to Jim Eckert, president of Anchor State Bank in Anchor, Illinois, "Even though farm yields were decent, low prices have depressed land and equipment sales."

CLICK TO READ MORE OF NOVEMBER'S SURVEY

Tables 1-3 summarize survey findings

(click each table to view larger):

Table 1: Rural Mainstreet Economy October/November 2018: One Year Ago and Last Two Months (index > 50 indicates expansion)	October 2017	November 2017	September 2018	October 2018	November 2018
Area economic index	39.6	44.7	51.5	54.3	49.9
Loan volume	73.2	49.1	65.3	60.0	60.6
Checking deposits	51.2	59.4	39.4	45.7	54.5
Certificates of deposit and savings instruments	46.6	44.8	45.5	42.9	47.0
Farmland prices	36.0	36.5	37.5	34.8	35.9
Farm equipment sales	27.4	26.2	35.9	33.3	30.6
Home sales	56.0	56.6	54.7	54.3	51.6
Hiring	55.9	57.6	65.3	65.7	66.7
Retail business	41.9	40.7	48.4	51.4	45.5
Confidence index (area economy six months out)	36.1	40.6	48.5	42.6	47.0

Table 2: Rural Mainstreet Economy October 2018	Percentage of bankers reporting				
	Low loan demand	Information Tech. Security	Greater competition from Farm Credit	Low farm income & sinking farmland values	U.S. economic downturn
For a five-year time horizon, which of the following represents the biggest economic challenge to your banking operations and/or profitability? (other = 23%)	5.7%	8.6%	19.8%	20.0%	22.9%
	Decrease 6% - 12%	Decrease 1% - 5%	No change	Increase 1% - 5%	Increase more than 6%
Over the NEXT year, what change in farmland prices do you EXPECT in your area?	21.9%	46.9%	25.2%	6.0%	0.0%
	Decrease 6% - 12%	Decrease 1% - 5%	No change	Increased 1% - 5%	Increased more than 6%
Over the PAST year, what was the change in farmland prices in your area?	23.5%	38.2%	23.6%	5.9%	8.8%

Table 3: Rural Mainstreet Economy November 2018	Percentage of bankers reporting				
	Cut enacted tariffs	Leave at current level	Pursue more hawkish approach		
Regarding tariffs, farmers and others dependent on agriculture in your area, the Administration should:	37.5%	56.3%	6.3%		
	Decrease 4.1%-7.0%	Decrease 1% - 4.0%	No change	Increase 1% - 4.0%	Increase 4.1% - 7.0%
For retailers in your area, what is your expected increase/decrease in sales from the 2017 holiday buying season?	3.1%	12.5%	18.7%	46.9%	18.9%
	Unchanged	Increase 1% - 9%	Increase 10% - 20%		
Regarding farm loan defaults in your area over the NEXT year, what do you expect?	36.4%	45.5%	18.1%		

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