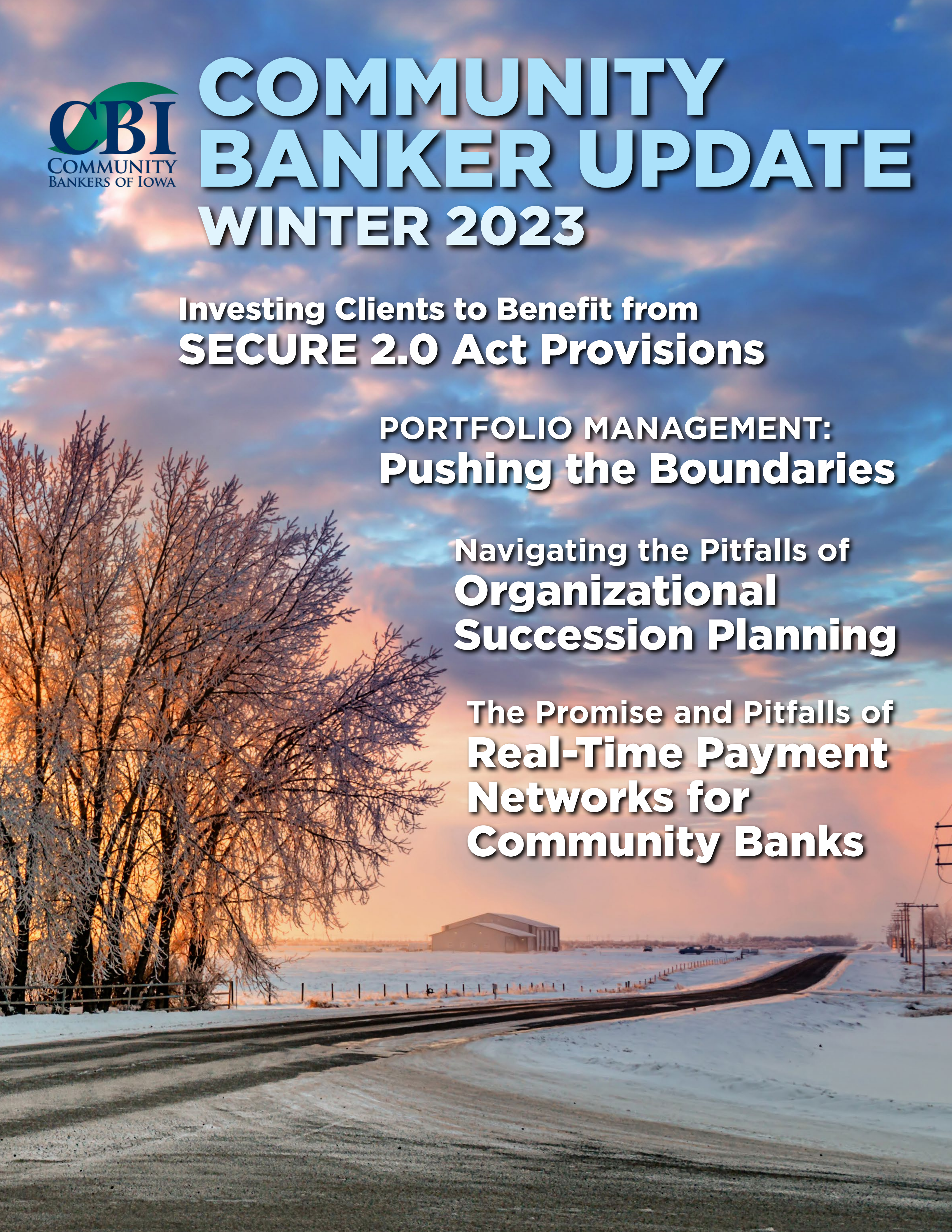

CBI
COMMUNITY
BANKERS OF IOWA

COMMUNITY BANKER UPDATE

WINTER 2023

Investing Clients to Benefit from SECURE 2.0 Act Provisions

PORTFOLIO MANAGEMENT: Pushing the Boundaries

Navigating the Pitfalls of Organizational Succession Planning

The Promise and Pitfalls of Real-Time Payment Networks for Community Banks

New Program Educates You and Your Staff While Supporting CBI

CBI has launched new, expanded educational offerings in collaboration with Independent Community Bankers of America (ICBA) Education. This program provides a variety of ways to educate: certification programs, a bank director program, self-guided online training, and a wealth of resources and reference guides.

And, you can show your support for CBI at no cost to you! For every ICBA Education training course, seminar and resource purchased, **ICBA will donate 10 percent of eligible purchases to CBI**. When purchasing a course, program or resource materials, enter the state code **IA-CBI** during the checkout process.

This new affiliate education program will ensure that collectively, we put community banks in contact with the training tools necessary to grow bankers' knowledge and skills. Learn more and view program offerings on our website. Click the Education button at the top of any CBI website page. ■

CBI WEBINARS

CBI Webinars are a standalone program independent of ICBA Education.

See course listings on our website; click the Education button and look for "Webinars".

In This Issue

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Stay Connected! CommunityBankersOfIowa @CBIAOnline

Community Bankers of Iowa Endorses BHG Financial, a Top Source for High-Quality Loans

Community Bankers of Iowa (CBI), has endorsed BHG Financial (BHG), the creator of the largest community bank loan network in the country. BHG was awarded the endorsement following a due diligence process and approval by the CBI's Board of Directors.

Through this endorsement, CBI member banks can access the BHG Loan Hub, a secure, state-of-the-art loan delivery platform and the number-one source for professional loans. Having underwritten over $100 billion in loans and funded over $17 billion in financial solutions to date, BHG has gained unmatched insight into these borrowers.

CBI members can bid on and purchase individual loans via a daily auction or through the BHG Marketplace; purchase custom-built portfolios; or buy into a block purchase with other BHG bank customers. More than 1,600 banks have partnered with BHG to buy high-quality loans, earning them combined interest income of over $1.3 billion.

"The community bank members of CBI look forward to working with BHG to diversify their loan portfolios and improve yields. The endorsed relationship between CBI and BHG is a win-win for everyone" said Director of Member Services, Ross Dickinson.

"We are so grateful to earn the endorsement of the CBI and to deepen our strong relationship with the association and great bankers in Iowa," said EVP of Institutional Relationships Keith Gruebele. "Personally, I appreciate the opportunity to serve the great banks in Iowa and am grateful for the trust and friendship with so many wonderful bankers across the region."

Visit www.cbiaonline.org/endorsed-services for more about CBI Endorsed Services, or contact Ross Dickinson at rdickinson@cbiaonline.org or (515) 453-1495. For more on BHG Financial visit www.BHGBank.Network/CIA. ■

CBI Endorsed Member Spotlight: Bankers Solutions/Assured Partners

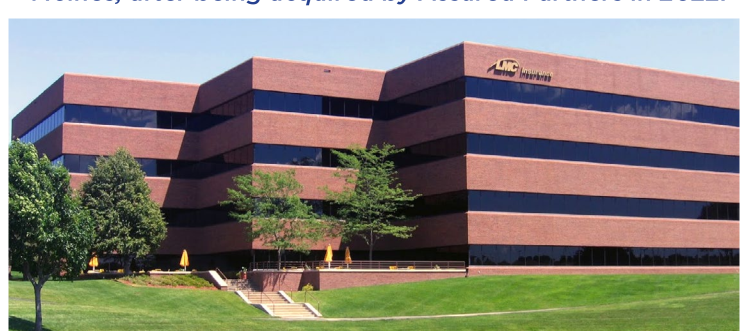
CBI Endorsed Members Bankers Solutions/Assured Partners and EMC Insurance Companies provide competitively priced bank-specific insurance products, designed to help efficiently manage risk inherent in a community bank's daily operation. They bring best-in-class products at premiums commensurate with CBI Member banks' asset sizes and risk models.

Endorsed by CBI since 1995, Bankers Solutions/Assured Partners are the managing general partner for the EMC bank insurance program. They offer Risk Management Insurance, D&O–E&O, Blanket Bond and Excess Deposit insurance products. All are committed to creating the proper solution for the specific risk management needs of each bank. Backed by EMC, an Iowa-based company, CBI member banks are eligible to receive discounted rates, and the policy is fulfilled by a local agent in your community. This saves community banks on insurance costs, and keeps the dollars local wherever possible.

Bankers Solutions/Assured Partners and EMC Insurance 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 banks for their long-time support and their commitment to the preservation of community banking!

For more details on CBI Endorsed Member Bankers Solutions/Assured Partners and the EMC bank insurance program, Contact Tom Vande Kamp at 515-276-8512 or tom.vandekamp@assuredpartners.com. ■

Above: The Bankers Solutions office when they joined CBI in 1995. Below: Bankers Solutions' new location in West Des Moines, after being acquired by Assured Partners in 2022.



2024 CBI Event Schedule

This is a tentative schedule; dates are subject to change.

March 26
CBI Legislative Reception
Iowa Taproom - *Des Moines*

April 1-30
Community Banking Month
Best of the Best Contest entries due May 13

April 4-5
CBI Leaders of Tomorrow 22nd Annual Leadership Development Conference
Location to be determined

April 29
Poster Contest entries due

July 17-19
CBI 53rd Annual Convention
Roof Garden / Majestic Pavilion
Arnolds Park, Iowa

September 9
CBI 17th Annual Golf Classic
Hyperion Field Club - *Johnston, Iowa*

October 17
CBI 5th Annual Pheasant Hunt
Doc's Hunt Club - *Adel, Iowa*

November 7
Midwest Ag Conference
Virtual event

Fall 2024: TBD
CBI Leaders of Tomorrow Business Meeting
Location to be determined

Other Industry Events:

March 14-17
ICBA Live Annual Convention
Orlando World Center Marriott
Orlando, Florida

April 9-11
SHAZAM Forum
Des Moines, Iowa

April 11
IA Div. of Banking Day with the Superintendent
Location to be determined

May: TBD
ICBA Capital Summit
Washington DC

Financial Institutions, Investing Clients to Benefit from SECURE 2.0 Act Provisions

Written By:
Nicole Hinman
Senior Director of Client Solutions
Cambridge Investment Research, Inc.

Newer legislation makes it possible for all Americans to save for retirement and opens the door for financial institutions to gain access to a large portion of workers who were previously unreachable.

The SECURE 2.0 Act is transforming the retirement plan landscape. For banks and credit unions that have investment programs or provide wealth management services to clients, this is the perfect opportunity to collaborate with your financial advisors on a growth strategy centered around small business owners.

With more than 33 million small businesses in the U.S., small business owners are the center of many of our local community institutions. This legislation opens the door to deeper, more valuable conversations with these clients, helping them provide an upgraded retirement plan experience to their employees and avoid possible penalties.

Signed into law late last year, SECURE 2.0 contains 92 new provisions to address the country's growing retirement savings gap. Out of more than 133 million Americans working in the private sector, nearly 57 million work for businesses that don't offer retirement plans, according to an AARP study. SECURE 2.0 introduces incentives that address the most common reason why small businesses don't offer retirement plans: cost.

SECURE 2.0 introduces enhanced tax credits to help employers offset the costs associated with establishing and operating a plan. Employers with 50 or fewer employees can claim a start-up credit of up to the lesser of $250 per non-highly compensated employee (NHCE) or $5,000 per year, applied for each of the first three years of the plan.

To further ease the financial burden of offering a plan, an additional tax credit is available to help offset the cost associated with employer contributions made on behalf of eligible NHCEs whose FICA wages are $100,000 or less (indexed). This credit is equal to 100% of employer contributions, not to exceed $1,000 per NHCE, for two years, then phased out by 25% each of the next three years.

The credits are available to employers that are starting a new retirement plan, or to employers joining existing multiple employer plans (MEPs) or pooled employer plans (PEPs).

PEPs, a type of 401(k) plan created under the original SECURE Act of 2019, are an especially attractive option to many business owners who want to offer a plan but aren't eager to assume all the fiduciary liability that goes along with it. A PEP allows multiple unrelated businesses to pool their purchasing power for better benefits, service, and pricing while enjoying less in-house administrative overhead. Cambridge Investment Research, Inc. (Cambridge), Member FINRA/SIPC, a leading provider of financial solutions to independent financial professionals and financial institutions nationwide, recently launched its own PEP called EveryoneSaves™. Cambridge developed EveryoneSaves to support the firm's financial advisors in delivering a competitive, compliant retirement plan.

By helping small business owners establish new retirement plans or become adopting employers of a PEP, banks and credit unions can increase loyalty and trust with those clients and gain long-term access to many new households – in the form of each plan's employees. According to research from the Bank

Secure 2.0 Act Provisions: Continued on Page 7

Secure 2.0 Act Provisions: Continued from Page 6

Insurance & Securities Association (BISA), households that have an established investment relationship with their primary bank or credit union carry account balances that are 3.2 times the balances of other account holders.

Financial institutions and their advisors should also be ready to review existing retirement plans with business owners to determine which of the 92 provisions of the SECURE 2.0 Act require action and which optional provisions should be considered. Some provisions, including those around emergency savings and student loan repayment, create opportunities for deeper planning discussions and can strengthen client relationships. For more information about these provisions, read the Senate's summary.

Don't miss this unique opportunity to lead the charge with small business owners and coordinate a marketing strategy to make sure they are taking advantage of this new law. Remember, someone will approach your client. Make sure it's you! ■

Nicole Hinman is Senior Director of Client Solutions for Cambridge Investment Research, Inc. An industry-leading independent broker dealer for over 40 years, Cambridge leads the industry in wealth management, practice enrichment, service and technology solutions. For more on CBI Affiliate Member Cambridge Investment Research Inc, visit www.joincambridge.com.

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See full lists of CBSI providers at cbiaonline.org

Join the growing list of Community Bankers of Iowa Services Members!

For more details contact Ross Dickinson, Director of Member Services at 515-453-1495 or rdickinson@cbiaonline.org.

Do You Know About Community Bankers Services & Insurance?

Save money AND support your association! Providing best of class services, products and insurance to member banks has been the mission of Community Bankers Services and Insurance (CBSI) since 1984. CBSI provides exclusive 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, 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 services and consider new partnerships, often suggested by members. Your bank, and your association—the only association *exclusively* representing Iowa's community banks—will benefit when you have a choice of the best providers. ■

The Promise and Pitfalls of Real-Time Payment Networks for Community Banks

Written By: Allied Payment Network

The financial landscape is rapidly transforming with the introduction of real-time payment networks like FedNow and RTP. The allure of instant transactions has not only caught the eye of consumers, but has also become an operational benchmark for small and medium-sized businesses. Indeed, the ability to transfer funds immediately has transitioned from a luxury to a basic expectation in the digital age.

This evolution in payment processing holds tremendous potential for community banks to level up. Douglas Brown of NCR Digital Banking underscores this sentiment, emphasizing the unique chance for these banks to innovate and stand out. But with every step forward comes a need for caution; the adoption of real-time payment networks is not a simple plug-and-play solution.

Chris Nichols from SouthState Bank in Atlanta, Georgia uses an apt analogy, comparing these networks to the foundational 'rails' upon which the payment system runs, but without the 'train' — the user interface and experience — the tracks don't mean much to customers. This distinction is critical. While the infrastructure for instant payments is being laid, the challenge for community banks is to develop the technology stack that can harness these rails effectively.

Community banks face a David and Goliath scenario; battling larger banks and fintech companies in creating seamless and intuitive customer experiences is no small feat. These larger entities have already traversed miles in the digital space, leaving community banks to play catch up. This reality is daunting considering that customers are largely indifferent to the mechanics of their transactions — they're after the 'gas,' not the 'crude oil,' to echo Nichols' metaphor. They seek the ease and efficiency that real-time payments promise.

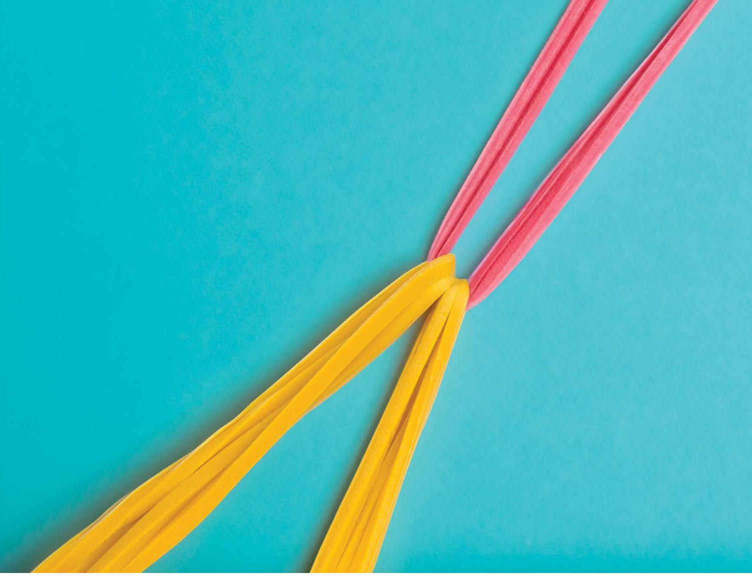
The implementation and maintenance of such a sophisticated system come with a hefty price tag, potentially burdening smaller banks. Despite the Federal Reserve's assurances of affordability, disparities in resources could place community banks at a competitive disadvantage. This financial pressure underscores the necessity for these banks to not only connect their platforms to payment networks but also to conjure up a compelling customer interface.

Amidst this backdrop, community banks must be judicious in selecting technology partners. There are pivotal questions to be asked: What strategies will partners employ to integrate consumer real-time payments? How will they bridge the gap between different networks? What innovations are being introduced at the user interface level? And critically, what risk management measures are in place to safeguard customers and the banks?

Failure to secure satisfactory answers could signal potential peril ahead. It's a clear indication that community banks need to forge partnerships with tech providers who can not only navigate but also elevate the potential of real-time payment networks.

In closing, community banks stand at a crossroads. The direction they choose now — with due diligence, strategic planning, and the right partnerships — will determine whether real-time payments become a milestone achievement or a missed opportunity. It's about synchronizing technology, policy, executive vision, and customer expectations. With the right alignment, the real-time payments evolution could herald a golden era for community banks ready to embrace the future. ■

CBI Affiliate Member Allied Payment Network helps banks compete in an increasingly global market by providing them with world-class payments tools that position them as the heart of the communities they serve. For more visit www.alliedpayment.com.

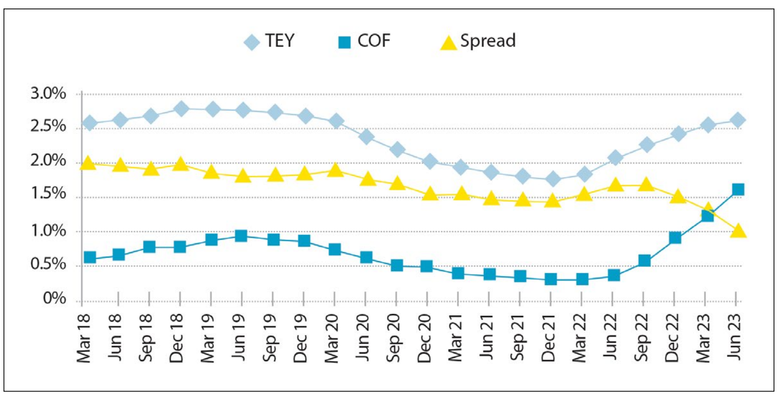


Portfolio Management: Pushing the Boundaries

Cost of funds is putting pressure on bond portfolio's net margins.

Written By:
Jim Reber
President and CEO
ICBA Securities

Let's get right to the point: Your community bank's net interest margin, which has probably shrunk in the last couple of quarters, has been especially compromised by your bond portfolio's performance. And I'm not talking about the credit quality; this is purely interest rate driven. Historically, when we look at the portfolio's tax-equivalent yield (TEY) compared with cost of funds (COF), the difference is around 200 basis points, or 2% (see table below).



This has held true in virtually all rate environments. This includes the 2013–15 period, when we were clawing our way out of the Great Recession and the fed funds rate was anchored at 25 basis points (0.25%). It also includes 2019, when fed funds got up to 2.5% and the yield curve inverted for a few minutes.

The current math isn't so appealing, and the trend actually began with the monetary policy response to the pandemic. So let's see what can be done to maintain your own "boundary," or spread, between the bonds' yields and your cost of carry.

Back in the day

For those with limited recall (like your correspondent), the mid-2010s was a period with weak loan demand, seemingly no pricing power, and therefore little inflation. Core personal consumption expenditures (PCE) never breached the 2% target between 2012 and 2018. In many months, it was closer to 1%. This normally would have caused the net earnings of the bond portfolio to shrink, as margin compression would have taken over. However, that didn't happen, as community banks were able to fund themselves with overall cost of funds well below 1%.

Even when inflation did perk up modestly, as in 2018–19, the 200-basis point net spread was maintained. COF, with its modest beta, stayed put for the most part, while bond portfolio yields rose enough to keep the boundary in place.

It's also worth mentioning portfolio durations stayed within their historical bands during the teens, generally around three years, so it doesn't look like there was "yield reach" in this era. This is especially impressive given the very flat yield curves in 2018–19.

Not all bad news

Just as it appears we're building out a case that earnings are going down the drain, here's some welcome news: Things still look quite good for the community banking industry overall. Earnings for the first half of 2023 are about in line with the similar period for 2022, even as funding costs have taken off. Interest rate risk postures for community banks appear to be very well balanced, according to Stifel, so overall, the higher rates that you're paying for deposits have basically mirrored the improved yields on interest-bearing assets, at least in the last four quarters. Net interest margins improved initially in 2022 after the Fed commenced its rate-hike cycle.

Two other elements of banking fundamentals are working well: credit quality and capital levels. These measures are akin to the offensive line on football team, in that you only hear about them when things aren't going well.

Noncurrent loan rates and net charge-offs in 2023 remain miniscule. The FDIC reports the average community bank leverage ratio (CBLR) for those who elected to use the CBLR reporting methodology was 12.1% as of June 30. Both contributed to net income increasing quarter-over-quarter, even with the funding headwinds.

Pushing the Boundaries: Continued on Page 13

Leadership at All Levels: The Gift of Clear Communication

Written By:
Lindsay LaNore
Executive Vice President
ICBA Education

In this season of giving, what can leaders do for their teams? Give them the gift of clear communication, rules of the road and pathways to success. Being able to communicate transparently is a skill that benefits all leaders, and it has a positive ripple effect across the team, allowing clarity in situations that might otherwise be complex or overwhelming.

It's also a relatively easy skill to learn as there are several simple tricks you can apply to your day-to-day life at the bank. Essentially, setting clear rules of the road means establishing ground rules and boundaries. Try some of the following techniques:

1. Lay your plan out in writing. If you're about to have a discussion or launch a project, make a plan. Be clear and concise. Include timing, rules, objectives and goals, stakeholders and other key details. Triple-check your written words. Give your message a little breathing room and revisit it after 20 to 30 minutes with fresh eyes before sharing with others.

2. Consider the context. Don't deliver your strategic goals for 2024 in a water-cooler setting. Share them in a team meeting and, if possible, in writing. Stay focused on delivering the critical information and avoid veering into unrelated discussions.

3. Repeat what's important to know. It's said that people need to hear information multiple times before it truly hits home. So, go ahead and repeat yourself, but not so much that your team starts to ignore you!

4. Ask people to repeat a plan back to you. There is always room for misinterpretation, so repetition comes into play again. It reinforces learning, confirms that something is understood and removes ambiguity. The phrase "clarify and summarize" can be a helpful tool for the team.

5. "Does that make sense to everyone?" Asking is another great tool. Ask questions but also invite questions in case what you've said is unclear.

6. Watch your tone. The way in which you say things is also part of the process, and make sure your nonverbal communication matches your written or verbal communication. Mixed signals don't work for anyone.

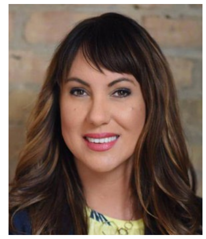
7. Be honest and authentic. For example, if you don't know the answer to a question, promise that you'll look into it, and then communicate the answer to all stakeholders in a clear manner.

8. Be open to feedback. We can always do better. This is part of active listening.

One final thing to consider: Communicating clearly sets a great example. It's also a skill worth passing on to others, either directly by sharing your communication methodology or indirectly by fostering a culture of communication. It's a gift that keeps giving, and that's exactly what we all need this holiday season. ■

Lindsay LaNore is ICBA's group executive vice president and chief learning and experience officer. For more on ICBA Education, visit www.icba.org/education.

Navigating the Pitfalls of Organizational Succession Planning



Written By:
Valerie Overby
Chief Executive Associate
PCI Performance Management

Succession planning is a crucial aspect of any organization's long-term sustainability. It involves preparing for the inevitable changes in leadership that occur over time, whether due to retirement, promotions, or unexpected departures. However, despite its importance, many businesses struggle to execute effective succession plans, often falling into common pitfalls that can hinder growth and stability. In this article, we will explore some of these pitfalls and provide guidance on how to navigate them successfully.

1. Lack of Proactive Approach:
One of the primary pitfalls in succession planning is taking a reactive rather than a proactive approach. Waiting until a leadership vacuum arises can result in hasty decisions and inadequate preparations. It's essential to identify potential successors early on and invest in their development, ensuring they possess the necessary skills and knowledge to step into leadership roles seamlessly. By taking a proactive stance, organizations can minimize disruptions and maintain continuity.

2. Inadequate Communication:
Poor communication is another common stumbling block when it comes to succession planning. It is crucial to involve all stakeholders, including current leaders, potential successors, and board members, in the process. Open and transparent communication helps align expectations, reduces uncertainty, and fosters a sense of engagement among individuals affected by the succession plan. Regularly updating all relevant parties on the progress and changes in the plan is essential to its overall success.

3. Neglecting Talent Development:
Organizations often make the mistake of solely focusing on identifying potential successors rather than actively developing their talent pool. Succession planning should be integrated into broader talent development strategies, ensuring that employees at all levels have opportunities for growth and advancement. Ignoring talent development can lead to a limited pool of suitable candidates, relying heavily on external hiring, which can disrupt organizational culture and reduce morale.

4. Failure to Assess Readiness:
Assuming that individuals labeled as potential successors are automatically ready to take on leadership roles can be a significant mistake. Successors should be thoroughly evaluated based on their competencies, character, and performance. This assessment should be an ongoing process that includes feedback from multiple sources, such as colleagues, subordinates, and external mentors. By accurately assessing readiness, organizations can avoid placing ill-prepared individuals into critical positions.

5. Lack of Continuity Planning:
While succession planning aims to ensure a smooth transition of leadership, it is also essential to account for potential disruptions, such as sudden departures or unforeseen circumstances. Continuity planning involves identifying backup successors and having contingency plans in place in case the primary succession plan falls through. This approach helps mitigate risks and ensures that the organization can adapt quickly to unexpected changes.

6. Not Monitoring and Adjusting the Plan:
Succession planning is not a one-time endeavor. To be effective, it requires regular monitoring and adjustment. The business landscape is constantly evolving, and individuals' career trajectories may change along the way. Organizations should review and update

Pitfalls of Succession Planning: continued on Page 13

Pitfalls of Succession Planning: continued from Page 12

succession plans periodically, revisiting potential successors' development plans and adjusting strategies accordingly. By staying flexible and proactive, organizations can maintain a robust succession plan that is relevant to the evolving needs of the organization.

Navigating the pitfalls of organizational succession planning is no easy feat. However, by adopting a proactive approach, encouraging open communication, emphasizing talent development, assessing readiness, including continuity planning, and regularly monitoring and adjusting the plan, organizations can increase their chances of successful leadership transitions. Remember, effective succession planning is not only about ensuring business continuity but also continuously investing in the growth and development of future leaders. ■

As PCI's Chief Executive Associate, Valerie Overby works closely with executive management on strategic project objectives and initiatives. This includes executive coaching, organizational/human resource-related objectives, succession planning, employee DiSC and 360 assessment, and next-generation manager training. For more on CBI Affiliate Member PCI Performance Management, visit www.prairiebankconsulting.com.

Pushing the Boundaries: Continued from Page 10

Here we are

By the looks of things in the table, there are still some challenges ahead. The net take, or spread, of the bond portfolio yields over the COF is barely half of its long-term run rate, and we're probably not finished yet. Portfolio TEYs have improved since the nadir in 2021, although the pace of improvement has been tortuously slow, since depositories have been collectively on buyers' strikes for two years.

If deposit betas hold consistent with past eras in which fed funds has met or exceeded 5%, it's entirely possible that overall COF would approach 3% for the industry. The chance of this improves in the "higher for longer" scenario.

Still, given that community banks are relatively insulated from further rate shocks, it appears that time could be on your side. For the 2023 holiday season, the boundary that portfolio managers should be most concerned with is their own midsections, not their bond portfolios' net interest margins. ■

Jim Reber is president and CEO of CBI Endorsed Member ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks. He can be reached at 800-422-6442 or jreber@icbasecurities.com.

Flourish

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

Community bankers are here for good

The 2024 ICBA LIVE theme is "Here for Good," and I am struck by how much that message resonates in all we do. Community bankers live this idea every day, because doing the right thing simply aligns with who we are.

When we think about what differentiates us from the Silicon Valley Banks of the world, it comes back to the fact that we live by a long-term value proposition and perspective that we're here for customers in both good and challenging times. That commitment requires continual action and engagement to know our customers and anticipate their needs. The community bank model is steeped in the assurance that no matter the issues or opportunities that arise with the customers and communities we serve, we can help.

But we don't do it alone. It takes an ecosystem to ensure our success. For instance:

1. **We engage technology partners** who share our values and help us find and leverage great scale to be here for good. Programs like ICBA's ThinkTECH Accelerator enable us to evolve and meet the unique needs of the customers and communities we're serving.

2. **We meet with regulator**s to offer first-hand knowledge of our depositors and their needs over time; our engagement and communication with them is about sharing how we do what we do for the right reasons.

3. **Our employees work tirelessly** to elevate the role of the community bank and become extended family to our teams and our customers, making a difference every day in our communities.

And our neighbors step up to join us for outreach efforts and ask us to serve on committees or boards, because together, we want to ensure the place we all call home continues to flourish for future generations.

In short, it takes a collective responsibility and effort to ensure that we're here for good. And that work is paying off.

"The community bank model is steeped in the assurance that no matter the issues or opportunities that arise with the customers and communities we serve, we can help."

I recently received an update on consumer research we're collecting to measure the impact of our national campaign, and hearing what people around the country are saying about community banks was deeply inspiring. They frequently mentioned phrases like "family" and "trust" in describing community banking. These commentaries validate the profound effects that occur when community banks are invested in their communities. They demonstrate first-hand that community banks are here for good.

So, as we close out the year, I want to take the opportunity to thank you for always being here for good and creating an industry that we can all be so proud of and one I'm honored to represent. I hope you make the time to celebrate your successes with family and friends, and from the ICBA team, we wish you a wonderful holiday season! ■

As well as being President & CEO for ICBA, Rebeca Romero Rainey is CEO of Centinel Bank in Taos, New Mexico. Connect with Rebeca on Twitter @romerorainey.

From the Top

Written By: Derek Williams, Chairman of ICBA

Celebrating the community bank ripple effect

As we close out 2023, I've been reflecting on the influence community banks have had as a community this year. In a difficult regulatory environment, it feels like we're fighting an uphill battle, but I look at it like ripples on a pond: When we share our message, the collective voice of this community creates cascading circles of impact.

Think back to where we were in March, when during ICBA LIVE in Honolulu, the failures of Silicon Valley Bank and Signature Bank of New York were announced, causing a media response that suggested a new "banking crisis." ICBA used this opportunity to double down on our message that community banks are distinct from the largest banks. That differentiation was heard by policymakers, with the vast majority of community banks exempted from the Federal Deposit Insurance Corporation's (FDIC) proposed special assessment. In addition, policymakers have responded by targeting new debt and capital proposals to banks over $100 billion in assets.

Or look at innovation and how we're able to offer both high-tech and high-touch relationships. In my column last month, I talked about how we provide both top technology through fintech partnerships and white-glove service to our customers. And when our customers share their stories, that message ripples far and wide. (Remember the impact of our work on the Paycheck Protection Program?)

But we're not ones to rest on our laurels. We seek education to better meet current and future customer needs. ICBA's education program offers the training required to do our unique jobs, including programs on task-specific leadership and supervisory skills. By increasing our knowledge, we remain on the cusp of emerging industry topics and, through that expertise, reiterate our role as trusted advisors to the communities we serve.

"While the biggest banks look strictly at the financial results and focus on doing well, community banks look at our overall impact and focus on doing good."

Being a community banker is the greatest job in the world. While the biggest banks look strictly at the financial results and focus on doing well, community banks look at our overall impact and focus on doing good. Every community bank is a "best place to work," because we care about our communities and customers, and the ripples of that truth continue to have positive effects on the environment around us.

While evaluating our business successes during this holiday season, I just want to remind you to take the time to focus on personal relationships as well. Show those closest to you how much you care. Give thanks for the blessings in your life and use those blessings to enrich the life of someone who needs them.

From the ICBA family and my family to yours, have the happiest of holiday seasons! ■

Quote of the Month

"Management is doing things right; leadership is doing the right things."

—Peter F. Drucker
Consultant, author and educator

Derek Williams is President and CEO of Century Bank & Trust in Milledgeville, Georgia.

Rural Mainstreet Economic Survey

Ernie Goss

Rural Mainstreet Economy Slows in September
Half of Bankers Expect Economic Conditions to Worsen

September 2023 Survey Results at a Glance:

- For the first time since March of this year, the overall Rural Mainstreet Index sank below growth neutral.
- Approximately half of bankers expect economic conditions to worsen in the next six months.
- A downturn in farm income was registered by bank CEOs as the No. 1 challenge to banking profitability for the next 12 months.
- For the fifth time in the past 12 months, farming equipment sales declined.
- Fewer than 4% of bankers reported an upturn in farm loan delinquencies over the past six months.
- Bank CEOs expect rising interest rates to represent the second greatest challenge to banking operations over the next 12 months.
- Approximately 46.4% of bankers indicated that they expect another banking crisis in 2023.
- The region's agriculture exports, including processed foods, fell from $19.95 billion in the first seven months of 2022 to $18.45 billion for the same period in 2023, for a 7.4% slump.

For the first time since March of this year, the overall Rural Mainstreet Index (RMI) sank below growth neutral for September, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

"This is the weakest recorded reading since March of this year. Bankers indicated that the biggest challenge to community bank profitability over the next 12 months will be a downturn in farm income," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Overall: The region's overall reading for September fell to 49.5 from August's 50.0. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

"This is the weakest recorded reading since March of this year. Bankers indicated that the biggest challenge to community bank profitability over the next 12 months will be a downturn in farm income," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Farming and Ranching Land Prices: The region's farmland price index climbed to 65.4 from 60.0 in August. This was the 36th straight month that the index has advanced above 50.0. "Creighton's survey continues to point to healthy growth in farmland prices, even as farming conditions weaken," said Goss.

Farm Equipment Sales: The farm equipment-sales index for September slumped to 44.0 from August's 46.0. "This is the fifth time in the past 12 months that the index has fallen below growth neutral. Higher borrowing costs are having a negative impact on the purchases of farm equipment," said Goss.

Rural Mainstreet Economy Slumps to a 2023 Low
Checking Deposits Declined Again

October 2023 Survey Results at a Glance:

- For a second straight month, the overall Rural Mainstreet Index sank below growth neutral to a 2023 low.
- For the fourth time in the past five months, farm equipment sales declined.
- Approximately 26.9% of bankers have tightened credit standards for farm borrowers.
- Approximately 34.5% of bank CEOs have tightened credit standards for business borrowers.
- Roughly 44.4% of bankers named low or falling crop prices as their top concern regarding farm profitability in the next 12 months.
- Rising or high interest rates were identified by 22.2% of bank CEOs as the greatest concern regarding farm profitability in the next 12 months.
- Checking deposits fell to their lowest level since May of this year.

For a second straight month, the overall Rural Mainstreet Index (RMI) sank below growth neutral according to the October survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The region's overall reading for October fell to 44.4 from September's 49.5. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

"This is the weakest recorded reading for 2023 and points to weaker farm and non-farm economies. Despite this weakness, only 26.8% of banks reported tightening credit standards for farmers while 34.5% indicated that their bank had tightened credits standards for businesses in their area," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Farming and Ranching Land Prices: The region's farmland price index dropped to 55.6 from September's 65.4. "Creighton's survey continues to point to solid, but slowing, growth in farmland prices as farm commodity prices weaken," said Goss.

Farm Equipment Sales: The farm equipment-sales index for October increased slightly to a weak 48.0 from September's 44.0. "This is the fourth time the past five months that the index has fallen below growth neutral. Higher borrowing costs are having a negative impact on the purchases of farm equipment," said Goss.

"For a second consecutive month, several bankers voiced concerns over economic losses of pork producers in their area," said Goss.

Jim Eckert, CEO of Anchor State Bank in Anchor, Ill. said that, "Harvest is well under way in our area. Yields appear to be equal or better than 2022, despite drought conditions in July."

Rural Mainstreet Economy Slumps to Lowest Level in Three Years

Bank CEO Economic Confidence Plummets to Record Low

November 2023 Survey Results at a Glance:

- For a third straight month, the overall Rural Mainstreet Index sank below growth neutral to a three-year low.
- Banker economic confidence dropped to its lowest level since initiation of the survey in 2006.
- For the first time since January of this year, the checking deposit index advanced above growth neutral.
- For the fifth time in the past six months, farm equipment sales declined.
- Approximately 84.5% of bankers urged the Federal Reserve to make no changes to interest rates at its next meetings on December 12-13.
- Approximately 88.5% of bank CEOs reported that available jobs outnumbered available workers in their local economy.
- According to the International Trade Administration, the export of agriculture products from the region declined from $9.8 billion for the first nine months of 2022 to $8.6 billion for the same period in 2023 for a 12.7% slump.

For a third straight month, the overall Rural Mainstreet Index (RMI) sank below growth neutral, according to the November survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The region's overall reading for November fell to 40.4 from 44.4 in October and 49.5 in September. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

"This is the weakest recorded reading in more than three years, or since June 2020, shortly after the beginning of the pandemic, and points to weaker farm and non-farm economies," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Farming and Ranching Land Prices: The region's farmland price index climbed to 66.7 from October's 55.6. "Creighton's survey continues to point to solid, but slowing, growth in farmland prices as farm commodity prices weakened," said Goss.

Farm Equipment Sales: The farm equipment-sales index for November increased slightly to a weak 49.5 from October's 48.0. "This is the fifth time the past 6 months that the index has fallen below growth neutral. Higher borrowing costs are having a negative impact on the purchases of farm equipment," said Goss.

"For a third consecutive month, several bankers voiced concerns over economic losses of pork producers in their area," said Goss.

Matthew Brown, Vice-President of Ag & Commercial Banking with CBI Bank and Trust in Washington, Iowa stated that, "We are losing a hog integrator that produced 400,000 head of hogs annually. They were shut down by Farm Credit with $38.8 million in debt. Currently preparing for liquidation."

According to the International Trade Administration, the export of agriculture products from the region declined from $9.8 billion for the first nine months of 2022 to $8.6 billion for the same period in 2023 for a 12.7% slump.

Jim Eckert, CEO of Anchor State Bank in Anchor, Ill. said that, "Harvest is complete. Corn yields are about the same as 2022 and soybeans yields are slightly lower. All-in-all, the crop was much better than expected, given the VERY dry July this year."

Tables 1-4 summarize survey findings.

Table 1: Rural Mainstreet Economy September / October / November 2023: One Year Ago and Last Two Months (index > 50 indicates expansion)

	September 2022	October 2022	November 2022	August 2023	September 2023	October 2023	November 2023
Area economic index	46.3	44.2	45.7	50.0	49.5	44.4	40.4
Loan volume	79.5	76.8	65.8	75.0	70.3	77.7	57.9
Checking deposits	46.3	34.0	47.7	30.8	35.2	26.9	56.0
CDs and savings instruments	34.6	46.2	45.5	69.2	59.3	59.6	58.0
Farmland prices	61.1	58.0	68.2	60.0	65.4	55.6	66.7
Farm equipment sales	58.0	47.8	59.5	46.0	44.0	48.0	49.5
Home sales	46.2	36.0	34.8	59.3	37.0	40.4	32.0
Hiring	50.0	49.2	49.1	51.9	49.2	49.2	49.1
Retail business	46.0	50.0	45.5	51.9	48.1	46.3	44.2
Confidence index (area economy 6 months out)	40.7	30.8	27.3	38.9	26.8	24.1	21.2

See next page for more results tables. Continue reading the September, October and November 2023 Rural Mainstreet Reports on our Community Banking News Blog, under the News tab at cbiaonline.org.

Table 2: Rural Mainstreet September 2023	Percentage of bankers reporting				
	Low Loan Demand	Drought Conditions	Hiring Talent	Climbing Interest Rates	Downturn in Farm Income
What will be the biggest economic challenge for agriculturally dependent community banks for the next 12 months:	3.6%	3.7%	7.1%	35.7%	50.1%
	Down by More than 10%	Little or No Change	Moderately Higher		
Farm loan delinquency rates over the past six months were:	3.6%	92.9%	3.5%		
	Definitely Not	No	Maybe	Likely Yes	
Is the 2023 banking crisis over?	7.1%	39.6%	39.0%	14.3%	

Table 3: Rural Mainstreet October 2023	Percentage of bankers reporting				
	Significantly Reduced Standards	Reduced Credit Standards	Made No Changes to Credit Standards	Tightened Credit Standards	Significantly Tightened Standards
Regarding your bank's extension of operating loans/ credit to FARMERS, your bank has:	0.0%	0.0%	73.1%	23.1%	3.8%
	Significantly Reduced Standards	Reduced Credit Standards	Made No Changes to Credit Standards	Tightened Credit Standards	Significantly Tightened Standards
Regarding your bank's extension of operating loans/ credit to BUSINESSES, your bank has:	0.0%	0.0%	65.4%	34.6%	0.0%
	Other	Trade Barriers & Restrictions	Rising or High Farm Input Costs	Rising or High Interest Rates	Low or Falling Crop Prices
Which of the following represents your biggest concern regarding farm profitability in the next 12 months?	11.2%	7.4%	14.8%	22.2%	44.4%

Table 4: Rural Mainstreet November 2023	Percentage of bankers reporting				
*www.federalreserve.gov/monetarypolicy/ fomcpresconf20231213.htm	Leave Rates Unchanged	Reduce Rates by 0.25%	Reduce Rates by More Than 0.25%	Increase Rates by 0.25%	Increase Rates by More Than 0.25%
The Federal Reserve Open Market Committee (FOMC) meets next on Dec. 12-13.* At this meeting the FOMC should:	84.5%	4.0%	3.8%	7.7%	0.0%
	More Workers Than Jobs	Significantly More Workers Than Jobs	Workers and Jobs in Balance	More Jobs Than Workers	Significantly More Jobs Than Workers
Which of the following best describes the worker/job availability in your area:	7.6%	0.0%	3.6%	85.0%	3.8%
	Significant Downturn	Moderate Downturn	OK, but Expect Recession Ahead	Solid Growth and No Recession	Very Strong Growth, No Recession Ahead
Which of the following best describes the economy in your area:	0.0%	19.2%	57.7%	19.2%	0.0%

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

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