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JANUARY/FEBRUARY 2018

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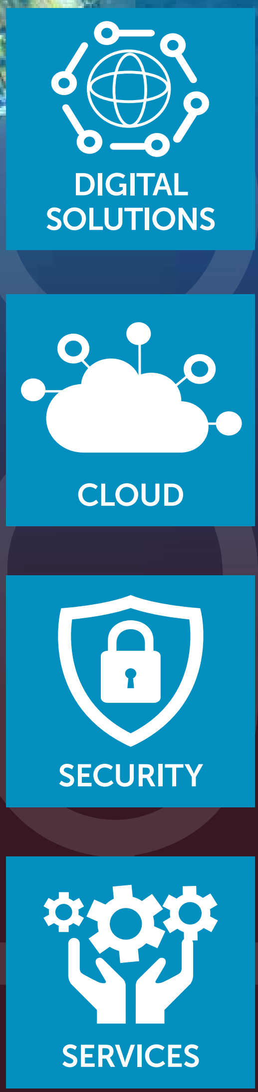

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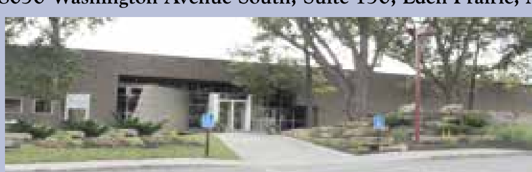

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Helpful Regulatory Relief on its Way?

Joe Witt
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2018 is upon us! Happy New Year to all of you. I hope that you had a safe and happy Holiday Season and that 2017 ended in a good way for you and for your bank.

As I write this article in mid-December 2017, there have been some notable developments in the banking world. Some of these developments are actually pretty positive, overall. I will discuss the tax reform process another day. As of right now, there are still too many details that need to be addressed by the Conference Committee that is reconciling the differences between the House and the Senate tax bills. That reform project could be a mixed bag, with some good provisions and some not-so-good ones. As Congress drops the overall tax rates, the bankers and other tax policy groups had suggested that they consider taxing credit unions and the Farm Credit System to help pay for the rate reductions. There is some very real money available if Congress could muster the fortitude to expand the tax-paying base. So far Congress is willing to continue to force all the business and individual taxpayers to continue subsidizing these tax dodgers. That situation is incredibly weak, especially because Congressional leaders specifically stated that one of the goals of tax reform was to ensure that the tax code does not pick winners and losers. Sorry, I digress.

My topic for today is regulatory reform, focusing on the reform bill recently passed by the Senate Banking Committee. That bill was the first bipartisan bank regulatory relief bill passed by the Committee in years. It was also the first significant piece of banking legislation of any kind passed by the Committee since Dodd-Frank. After several years where the House passed lots of banking reforms, we are pleased that the Senate Banking Committee has now passed something. You will recall that the only relatively meager banking regulatory relief provisions passed in the last few years were attached to appropriations bills rather than passed through the normal process by the committees. For example, an amendment to an appropriations bill eliminated annual privacy notices, unless a financial institution has changed its privacy policy.

After years of only experiencing increased regulation, we were happy to see even those few, minor reforms. They help a tiny bit, but they will not make a significant difference with respect to a bank's overall compliance obligations.

This most recent Senate proposal contains about twenty separate reform provisions, and several would be especially meaningful. They would prove to be helpful, if the bill can pass the full Senate, can be reconciled with actions taken in the House and is then signed by President Trump. The following are four of my favorite reforms.

1. Community banks with less than $10 billion in assets can consider all mortgage loans that they originate and hold in portfolio to be Qualified Mortgages.
2. Community banks that made fewer than 500 mortgages and 500 home equity lines of credit each of the last two years would be exempt from the new, significantly expanded HMDA data collection and reporting rules.
3. Community banks with less than $10 billion in assets would be subject to simpler capital rules.
4. Raise the eligibility for short form call reports from banks up to $1 billion in assets to banks up to $3 billion in assets.

While these reforms are helpful, you can see that the reforms are not available to all banks. Some of these reforms should rightfully apply to all banks. Also, the qualifications for receiving most of the bill's regulatory exemptions are still based on arbitrary asset sizes, rather than based on business reasons like risk profile, business model or complexity. Even as we support this bill, we strongly support moving towards smarter, more meaningful delineations, if delineations are necessary.

The proponents of this Senate bill have said that it should be considered a first step toward a more appropriate banking regulatory structure. While helpful, even these proposed reforms are not the type of reform needed to slow down the current accelerated pace of bank consolidation. There needs to be a more thoughtful and consistent change in overall bank regulatory policy.

Banking is a heavily regulated industry. We must accept that fact. However, there are ways to regulate banks for both safety and soundness and consumer protection that would achieve better results, at much lower costs. If this Senate plan is just the first step, let's hope that policy makers are willing to take the additional steps to reform bank regulation so that all banks remain viable and all banks can focus on better serving their customers and their communities.

Thank you very much for your membership in the MBA and for all your support. ■

Joe Witt

Joe Witt, MBA President/CEO

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It's been another great year serving the professional development needs of our bankers in an ever-changing industry landscape.

Thousands of bankers took advantage of our training programs in 2017, and we are grateful for the continued trust you place in the MBA to deliver the highest quality banking education in the state. As I look back on the year, here are some of the highlights:

- The retooled and rebranded MBA Annual Summit in Duluth was a great success, bringing bankers together for outstanding education, fun networking and a celebration of the positive impact that bankers make in communities throughout the state. If you haven't attended this conference for a while, mark your calendar for June 10-12 at Madden's Resort in Brainerd for what will be a truly memorable event.
- In June, we also launched the MBA's new Leadership Development Academy with an impressive class of 20 up-and-coming bank leaders throughout Minnesota. Class 1 is half-way through this intensive training experience, and we're already receiving applications for Class 2.
- The annual MBA Women's Leadership Conference brought together nearly 100 women bankers for another high-energy, inspiring program.
- 455 bankers attended the collaborative MBA/Farm Service Agency programs and 245 bankers attended the MBA/Small Business Administration programs.
- The Principles of Banking course attracted 95 new bankers and seasoned bankers looking for a refresher, a significant increase over last year.

These are just a few of the many opportunities for professional development offered by the MBA, so we encourage you to look for a complete list of programs under the Education tab on www.minnbankers.com.

As we look ahead to 2018, we're excited to work with our committees to continue identifying what's most needed to meet the changing professional development goals of MBA member bankers.

For now, we wish you a great start to the new year, and we look forward to seeing you at an MBA program in 2018! ■

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Three Ways to Maximize Marketing with Technology

By Anne High and James Lubeck

As relationships with customers become more digital, the use of technology is crucial to not only service delivery, but to understanding customer interactions and channel usage. Financial institutions generate a tremendous amount of data, and harnessing that data provides insights into how to best engage with customers. In the area of marketing, analytics and technology can play a key role in segmenting customers, and reaching them with the right offers through the right channels.

The Secret to Success

A Fiserv study of 256 high-performing banks found that top performers are using integrated technology to make sense of the growing body of customer, transaction, demographic and market data available to them. They're using that data to conduct in-depth footprint and customer analysis to manage capacity and leverage their strengths.

These data-driven organizations outperform their peers 3 to 1. Their success often begins with a sound marketing strategy that utilizes analytics to better understand their customers' needs and behaviors in order to create a competitive edge. For financial institutions, this helps not only to grow relationships with existing customers, but grow beyond that base as well.

With the rapid adoption of digital services, the traditional marketing model for financial institutions is evolving to tap new growth opportunities. Marketing analytics can yield factual insight into product penetration, channel adoption and service usage, and can help organizations:

- Assess new markets and growth potential
- Expand market share
- Boost loyalty by growing wallet share
- Drive service adoption
- Retain profitable customers and deepen customer relationships.

Following are three ways that financial institutions can use analytics and technology to maximize marketing efforts.

Segmentation = Powerful Benefits

An important analytics practice that helps organizations better understand who should be receiving targeted messages is predictive analytics. Predictive analytics leverages existing customer data to make calculated assumptions about the activity of new customers. Not all customers are interested in the same services and solutions. Dividing a broad target market into smaller subsets of consumers based on common interests and behaviors allows financial institutions to deliver the right messages to the right customers.

Research-based segmentation can provide a 360-degree view of customer relationships and reveal new growth opportunities. It's a cyclical process – as leads convert to customers, the data gathered from them influences future marketing endeavors.

Targeting Marketing Interactions

A successful and productive marketing campaign will use the delivery channel most effective for a given market segment. A multichannel campaign can reach current and prospective customers through:

- Digital/mobile
- Social media
- Email and e-statements
- Direct mail
- In-branch.

Adopting an omnichannel marketing program that utilizes data analytics ensures the right message gets to the right customer at the right time in the right integrated channels.

Technology allows financial institutions to get very targeted messages to the type of consumer they know well, or the type of business where they have a niche. It allows resources to be prioritized to get the right lead. Financial institutions can even conduct "micro-interviews" within the digital user interface so customers can relay their needs and preferences and then receive information about capabilities that meet those needs.

Advances in technology are not only changing the ways customers interact with banks, but also the way banks interact with customers. Consumers expect to receive timely and actionable financial notifications the same way they receive them from other venues such as LinkedIn and Facebook. Gone are the days of banking customers receiving only monthly statements via direct mail. Emails, text messages, and push notifications in real time have replaced the old methods of communication. Customers can now choose the types of alerts and notifications they receive, how and when they are received, and can take action immediately.

Marketing Consistently Across Channels

Embracing a digital focus can help expand your marketing footprint. Utilizing an omnichannel marketing approach allows organizations to deliver the same message to a customer in a branch, a customer banking online and a customer banking on a mobile device. All of these channels tie back to centralized offer presentment – they're not independent of one another.

Digital and physical channels aren't mutually exclusive; they're essential parts of the overall experience. What's unique about digital engagement is that it's a proven driver of offline behavior. For instance, a recent Fiserv study on mobile banking found consumers engaged in mobile banking use their debit cards more, while digital banking enrollment is associated with increased product holdings from an institution, compared to non-digital users. Those are important factors for customer relationships and organizational growth.

Moving Forward

The ability to create and manage effective campaigns and measure their success is vital to a successful marketing strategy. In order to know what kind of campaigns to create, financial institutions need to identify and quantify opportunities both in the market and in their existing customer base. Gathering and analyzing data will help financial institutions target messages specifically to those opportunities. It is imperative that banks thoroughly analyze their customers and market data so marketing efforts are directed to the best opportunities. Resources are limited, so prioritizing the segments with the highest value will be key in increasing the return on a marketing investment.

Data analytics can reveal new ways of approaching an issue, addressing key market segments or identifying potential blind spots, which ultimately makes for more targeted and more meaningful marketing campaigns. Top performers are increasingly focused on understanding their data in order to create better outcomes.

Successful marketing is about knowing your customers. When financial institutions use the wealth of data available to segment customers, targeted campaigns can appear at just the right time. ■

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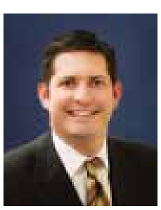

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What Does a Good Business Impact Analysis Look Like?

By Cole Ponto

Introduction

It's no secret that a Business Continuity Plan is an important document to have in your arsenal, especially when responding to events, such as natural disasters or cyber attacks, that may interrupt or halt business operations. Since a Business Continuity Plan (BCP) is so important, more value is placed on the successful creation of your own plan, which means that you will want to make sure you're building a well-rounded and valuable BCP.

One of the messages you'll hear over and over again from SBS is that your information security processes should always start with a risk assessment. Unsurprisingly then, your Business Continuity Planning process should begin with a Business Impact Analysis (BIA). The purpose of the BIA is to help you prioritize your business processes and tell you where to start when beginning your response. When creating a BIA, there are going to be three (3) main components that you should address to get the best results, including 1) Impacts, 2) Timeframes, and 3) Dependencies. This article will cover each of these BIA components, along with a little information on your business processes themselves.

Where to Start

As with many of the processes within your Information Security Program, your Business Impact Analysis should be based on your size and complexity; the larger and more complex the institution is, the more detailed the list of business processes you should be reviewing in your BIA. For example, where a smaller institution may address the "Administrative" function as one business process, a larger, more complex institution may cover the same items by breaking the function out in more detail. For example, a larger institution might break out a smaller institution's "Administrative" process into several processes, such as "Accounts Payable," "Human Resources," and "Payroll." While both methods work, you will want to make sure that you are choosing the correct route for your institution, neither oversimplifying the process nor overcomplicating it. Examples of standard business processes include the following:

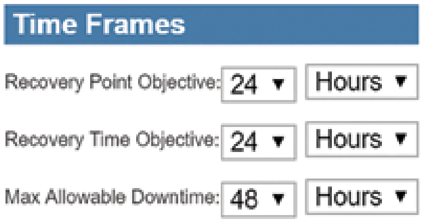
- Administrative
- Investment
- Trust
- Back-Office
- Customer Service
- Information Technology
- Accounting
- Lending
- Marketing
- Compliance
- Retail.

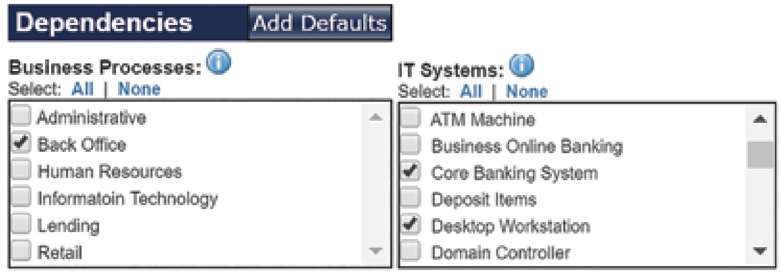
Prioritizing Your Processes

Now that you have your business processes established, it's time to discuss the information you want to enter or review to determine the priority of each process. Let's begin with Impacts. If you take a quick look at what is expected from the FFIEC, you will need to identify potential Impacts from "uncontrolled, non-specific events on the institution's business functions and processes." The Impacts that we cover at SBS include Customer, Financial, Legal / Regulatory, and Required Recovery Resources. To properly assess your Impacts, you will not only want to set a ranking system for each Impact (Examples: low to high or 1 to 5), but you will also want to specifically define what each of those rankings mean, which will help others reviewing the BIA reach a similar conclusion when reviewing other business processes. Consistency is going to be extremely important, not only when reviewing Impacts, but also when reviewing Timeframes and Dependencies.

The next BIA component to discuss is your Timeframes for recovery. In the same way you have established your Impacts for each of identified process, you will need to establish your Timeframes for recovery. The three (3) Timeframes that every BIA should identify include:

- Recovery Point Objective (RPO) – The maximum tolerable period in which data might be lost due to a major incident. RPO is typically identified by the timeframe between data backup increments. RPO can be measured in minutes, hours, or days.
- Recovery Time Objective (RTO) – The amount of time in which business processes can be feasibly restored in the event of a disruption. RTO is typically defined by the length of time it would take you to restore a system or process from backup. RTO can be measured in minutes, hours, or days.
- Maximum Allowable Downtime (MAD) – The absolute maximum time in which a business process can be unavailable without significant ramifications to the institution. MAD should also include the time it would take to restore a business process to full operation once the backup has been restored, including the time it would take to recreate any lost data and test the restored data for integrity. MAD can be measured in minutes, hours, days, or weeks.





Each of these Timeframes should also have an impact on your identified process' priority. For example, the shorter your RPO for a process, the higher the impact will be to your institution. Your RTO and MAD might be addressed by comparing the difference between them. For example, if you have an RTO of 24 hours and a MAD of 48 hours, this leaves you with 24 hours of separation, providing you some, but not a lot, of room for error to fully restore a business process. If your business process were to have a similar RTO of 24 hours but with a MAD of 24 hours, you would have no room for error, resulting in a more impactful ranking. Business processes with shorter recovery timeframes and less room for error should rank higher in your recovery priority.

The last item to discuss, but certainly not least, is your Dependencies. Dependencies are the items that your business processes require to restore the process to full operational capacity, including vendors, IT systems, and other business processes. Dependencies will allow you to identify the necessary IT Assets that you need to restore in order to get a business process functioning (Examples: Core Banking System, Workstation, Firewall, etc.), along with the vendors you will need to restore that process (Examples: Core Banking Provider, IT Vendor, Internet Service Provider, etc.). You also want to consider other business process dependencies; for instance, if one business process relies upon another business process being operational to function, you should be taking this dependency into account during your prioritization. Overall, the number of Dependencies each business process has will also impact your rankings. A business process that has more business processes relying on it to be functional (dependencies) will rank higher in the priority listing for recovery.

Your Results

In an ideal BIA, you will follow a consistent risk management methodology, such as the methodology listed above, in order to get consistent results across your organization. Consistency is the key to a risk assessment that will help you to make decisions. Utilizing this methodology, business processes that have higher Impacts, shorter recovery Timeframes, and more Dependencies will bubble to the top of your recovery priority listing. You can use this business process prioritization (your BIA) to build out specific recovery procedures in your Business Continuity Plan and improve your BCP testing processes. An overview of your BIA (as shown below) will not only highlight the priorities of your business processes, but the values that were used in determining that ranking. A similar but more detailed version of the BIA may be reserved for inclusion within your BCP, listing out the dependencies in detail rather than showing the number of dependencies assigned to each process.

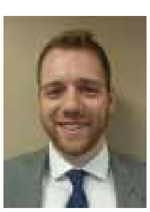
How SBS Can Help

A good Business Impact Analysis is critical to developing a Business Continuity Plan that is valuable, comprehensive, and will actually be useful for your institution. SBS' online risk management software – TRAC – contains a BCP module that includes Business Impact Analysis, BCP plan generation, and tabletop testing scenarios and documentation. If you're looking to build out a BIA and BCP that help you prioritize the recovery of business processes, you can learn more here: https://sbscyber.com/products/trac. ■

Source

https://ithandbook.ffiec.gov/it-booklets/business-continuity-planning/business-impact-analysis.aspx

Business Function	Total Dependencies	Customer Impact	Financial Impact	Resources Impact	Legal Impact	Recovery Point Objectives	Recovery Time Objectives	Max Allowable Downtime	Overall Priority
Information Technology	24	Medium	Medium	High	High	24 Hours	12 Hours	24 Hours	1
Back Office	13	Low	Medium	Low	Medium	12 Hours	24 Hours	48 Hours	2
Teller Operations	10	Extreme	High	High	Extreme	24 Hours	12 Hours	24 Hours	3



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The 5 Billion Dollar Scam

Editor's Note:
This article is a condensed version of a Public Service Announcement (PSA) issued by the Federal Bureau of Investigation's (FBI) Internet Crime Complaint Center (IC3) on a growing scam known as Business E-Mail Compromise (BEC). Minnesota banks should be fully aware of this scam and strategies to protect critical employee and customer information. The complete PSA and other resources to help prevent cybercrime can be found at: www.ic3.gov.

Definition
Business E-mail Compromise (BEC) is defined as a sophisticated scam targeting businesses working with foreign suppliers and/or businesses that regularly perform wire transfer payments. The E-mail Account Compromise (EAC) component of BEC targets individuals that perform wire transfer payments.

The techniques used in the BEC/EAC scam have become increasingly similar, prompting the IC3 to begin tracking these scams as a single crime type[1] in 2017.

The scam is carried out when a subject compromises legitimate business e-mail accounts through social engineering or computer intrusion techniques to conduct unauthorized transfers of funds.

Most victims report using wire transfers as a common method of transferring funds for business purposes; however, some victims report using checks as a common method of payment. The fraudsters will use the method most commonly associated with their victim's normal business practices. The scam has evolved to include the compromising of legitimate business e-mail accounts and requesting Personally Identifiable Information (PII) or Wage and Tax Statement (W-2) forms for employees, and may not always be associated with a request for transfer of funds.

BACKGROUND
The victims of the BEC/EAC scam range from small businesses to large corporations. The victims continue to deal in a wide variety of goods and services, indicating that no specific sector is targeted more than another.

It is largely unknown how victims are selected; however, the subjects monitor and study their selected victims using social engineering techniques prior to initiating the BEC scam. The subjects are able to accurately identify the individuals and protocols necessary to perform wire transfers within a specific business environment. Victims may also first receive "phishing" e-mails requesting additional details regarding the business or individual being targeted (name, travel dates, etc.).

Some individuals reported being a victim of various Scareware or Ransomware cyber intrusions immediately preceding a BEC incident. These intrusions can initially be facilitated through a phishing scam in which a victim receives an e-mail from a seemingly legitimate source that contains a malicious link. The victim clicks on the link, and it downloads malware, allowing the subject(s) unfettered access to the victim's data, including passwords or financial account information.

The BEC/EAC scam is linked to other forms of fraud, including but not limited to: romance, lottery, employment, and rental scams. The victims of these scams are usually U.S. based and may be recruited as unwitting money mules[2]. The mules receive the

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Best Practices for Enhancing the Debit Chip Card Experience

Complexity of U.S. Rollout has Created Inconsistencies at the Point of Sale

By Bryan Manka

In October 2015, a fraud liability shift was introduced to parties that have not adopted EMV chip technology. This shift prompted a transition to chip-enabled credit and debit cards and POS terminals. As of January 2017, an estimated 90 percent of U.S. debit cards were chip-based, according to the 2017 Debit Issuer Study, commissioned by PULSE and conducted by Oliver Wyman.

While many major merchants were early adopters of the technology, smaller retailers have been slower to make the transition. The gradual transition to chip-based transactions, combined with the requirements of Regulation II implementing the Durbin Amendment and changes in cardholder verification method (CVM), have created a chip card acceptance landscape in the U.S. that varies widely from card to card, and from merchant to merchant.

In many instances, debit transactions are approved as consumers would normally expect. In other cases, cardholders may be asked to sign into a merchant environment where they would normally use their PIN, eliminating the option to receive cash back. In rare instances, the transaction may fail and the consumer will have to use another payment option. They also may be asked to choose between a global network brand and "U.S. debit" when completing chip-card transactions.

To understand what banks can do to help their customers cope with this disparity of experiences, it's important to first understand the factors that contribute to it.

Layers of Complexity

There are several layers of complexity involved in the U.S. transition to chip cards:

- **Regulation II** – Among other things, this regulation requires financial institutions to enable at least two unaffiliated networks on each debit card and enables merchants to determine routing priority among the enabled networks. U.S. chip debit cards must have at least two application identifiers (AIDs) to be compliant; and, to facilitate merchant routing choice, a global AID from the payment brand on the card (Discover, Mastercard or Visa) and a U.S. Common Debit AID. The common AID enables routing to any of the supported brands on the card, including unaffiliated debit networks.
- **Card Network Combinations** – U.S. debit cards have one of three primary card brands and at least one unaffiliated debit network (but often two or three). This means cards can have dozens of possible combinations of enabled networks.
- **Enablement Order** – Because most banks enabled their credit cards with chips before their debit cards, merchants made a similar choice – enabling their terminals first for chip-based credit transactions. This means they enabled the global AIDs before U.S. Common Debit AIDs, and signature authorization before PIN authorization, in many cases. Many chip-accepting merchants still have not enabled the common AIDs. Depending on where each merchant is in the implementation process, the result is a wide variety of cardholder experiences.
- **CVM Options** – Many debit networks now support PINless POS transactions – and in the case of PULSE, even signature transactions. This blurs the lines between PIN and signature debit and has added another layer of uncertainty to the cardholder experience with chip cards.

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Utilizing Technology in Lending – Business Valuation Software

By Brandon Hall

Rules of thumb multiples can be useful to determine if a proposed business transaction seems reasonable prior to accepting an SBA or conventional loan application. However, most businesses are unique, and applying a rule of thumb without additional analysis can be dangerous. Most lenders are not going to pay for a Certified Business Valuation prior to accepting a loan. So, what's an option that is more in depth than a "ballpark" rule of thumb approach but less detailed and costly than a certified business valuation? My answer is look at using one of the latest business valuation software tools. This might seem like an odd suggestion coming from a certified business appraiser. Some in my industry are terrified of this technology and believe it's a direct threat to the valuation industry and quickly dismiss it. I believe it can be a great tool if you're educated on what it can do and understand its limitations and pitfalls.

Nominations for MBA Vice Chair/Treasurer

The Minnesota Bankers Association Nominating Committee invites your suggestions for a nominee for MBA Vice Chair/Treasurer for 2018-2019.

For the 2018-2019 year, the Committee will nominate a banker for the position of Vice Chair/Treasurer, to be elected at the Annual Summit on June 12, 2018. The Vice Chair/Treasurer will succeed to the office of Chair, and then to Past Chair.

Enclosed with the *MBA News* is a form for your use in suggesting a candidate for Vice Chair/Treasurer. We have asked that background information be included concerning bankers under consideration by the Committee. As always, past and current involvement with the Minnesota Bankers Association or our industry is important. The Committee will receive nominee suggestions until March 15, 2018.

We appreciate your careful consideration of qualified future leaders for MBA. Feel free to contact any of the Committee members if you have questions or comments.

Members of this year's Committee are Gail Mikolich, Northeast Bank, Minneapolis (Chair); Steve Daggett, Midwest Bank, Detroit Lakes; Steve Huston, BANKWEST, Rockford; Paul Pieschel, Farmers & Merchants State Bank, Springfield; and Dean Toft, HomeTown Bank, Redwood Falls. ■

What is the Rule of Thumb Approach?

Using a rule of thumb approach is a simplified form of the market approach, in which a "ballpark" multiple is applied to either the earnings or revenues of a business to obtain the estimated value of the business. Business brokers consider these multiples to be "pricing tips" that can be found in various publications and journals. The publication I am most familiar with is the 2017 Business Reference Guide. For example, average auto repair shops sell for 20-30 percent of annual revenues plus inventory; typical sandwich shops sell for two times the seller's discretionary cash flow plus inventory. SBA lenders and appraisers should know that rules of thumb are not considered valid appraisal methods in the appraisal industry and are only used to validate the reasonableness of values generated by the market, income, and asset approaches. Usually, they are used by SBA lenders to determine if a proposed business transaction seems reasonable prior to accepting a loan application. However, there are many other key factors that can skew multiples up or down. Some of these include lease terms, location, number of employees, concentration of customers, owner (seller) dependency, and net profitability. Let's look at another option – business valuation software.

Business Valuation Software

In general, a cloud-based valuation software takes the inputs and calculates the "value" based off an algorithm. So, the old saying is true: "Garbage in, garbage out." If the inputs of the business are not accurate or reasonable, then the value of the business will not be accurate or reasonable. It's important to understand the inputs and drivers of the business, to get the most out of any business valuation software.

The business valuation software I utilize, however, relies on a proprietary engine to analyze data from about 25 data sources to calculate a value based off the inputs. The inputs require three years of historical financial data, any appropriate add-backs, projected revenue growth, long-term EBITDA margin, percent of business recurring, percent of sales from top 3 customers, and the impact on profits and revenues if the owner leaves. The software adds more to a calculation than a "ballpark" rule of thumb. It considers key value drivers, along with the historical financial data and projected growth specific to the business. The software then harnesses a database of private businesses that have sold or been valued. It then uses the data that is the most relevant to the specific company being valued (usually industry and location) to essentially come up with a multiple. The value (output) received is usually in three different metrics: Asset Sale Value, Equity Value and Enterprise Value. This is important to know, depending on whether the proposed transaction is an asset or stock purchase.

Business Valuation Software continued on page 21

3 Key Strategies for Acquiring and Retaining Millennial Customers

By Kedran Whitten

Today, understanding millennials' complicated financial needs is a top priority for banks. But, how do they gain this kind of knowledge? Much of the existing information surrounding millennials points vaguely to new technologies and innovations, void of any concrete avenues for the engagement and retention of the largest generation of customers in America today.

In noticing this lack of useable data, CSI, in partnership with The Center for Generational Kinetics, conducted a national study to learn about the habits, behaviors and needs of millennial banking customers. The results of this study offer an important step toward demystifying the path ahead for banking leadership where millennials (as well as baby boomers and Gen Xers) are concerned, and provide practical and data-driven solutions and strategies.

Below are three actionable strategies to aid in your acquisition – and more importantly retention – of millennial banking customers.

1. Execute – But Also Communicate – Your Security Efforts

While bank customers of every age, including millennials, appreciate face-to-face communication with their institutions, online banking has become nearly universal.

However, in consumers' eyes, online banking is not without its faults. At the top of the list of concerns for our study's respondents is anxiety regarding online banking security. This is true even for millennials, who are noted for their wide acceptance of, and admiration for, technology. In fact, the study found that 44 percent of millennials say security concerns are the main disadvantage of online banking.

But concerns about security don't have to be the end of the story. Banks can take action to alleviate these issues and increase usage of their online tools and platforms in the process. Our study found that 47 percent of Gen X, 41 percent of baby boomers and 29 percent of millennials say improved security measures and fraud protection would cause them to use their financial institution's website or mobile app more frequently.

Clearly, security concerns are more than just customer complaints; they profoundly affect the bottom line for financial institutions, because customers are altering their behavior in response to them. Making continual strides toward providing the best security and fraud protection – and adequately articulating those efforts – won't just keep current customers happy, it's the key differentiator in attracting millennial customers. In this age of digital banking, making strides to improve security and fraud protection is more than just an engaging idea – it's a revenue generator.

2. Millennials Are Constant Bankers … Provide a Constant Experience

There was a time when a trip to the bank involved planning, time and travel, but that's no longer the case. With the advent of remote and digital banking technologies, customers carry a bank around in their purse or pocket at all times. A quick tap on the bank's mobile app, and a host of transactions – which once required that trip to the branch – can be completed in an instant.

This new reality has not only made financial transactions easier, but also made them continual. According to our study, 31 percent of millennials check their account balance daily. In fact, this is the No. 1 activity on mobile banking apps, followed by transferring funds: 51 percent of millennials say they prefer to check their account balance with their bank's mobile app and 39 percent prefer to use it to transfer funds. Since millennial customers are using these services so frequently, it's imperative that banks of every size have a top-notch mobile interface.

Retaining Millennial Customers continued on page 28

2018 Pioneer Banker Nomination

The MBA is proud to recognize MBA member bankers who have been leaders of the industry for 50 years or more. All eligible nominees will be inducted into the MBA Pioneer Club at a luncheon during the MBA Annual Summit on June 12, 2018, at Madden's Resort in Brainerd, Minnesota.

Who is eligible for induction into the Pioneer Club?
Any Minnesota banker working for an MBA member bank who has attained at least 50 years of active service by June 30, 2018, is eligible. U.S. military service counts in the 50-year span if the individual was in banking prior to and subsequent to the time spent in the military. Years after retirement in which the candidate works part-time for a bank as a consultant or as a member of the Board of Directors may be counted toward the 50-year total; however, these must be the principal endeavors of the candidate.

You can find the nomination form on our website or as an insert in this month's *MBA News*. ■

Implementing Change at Your Bank

By Valerie Overby

Managing change within an organization means having the right leaders to help set strategy, influence teams and create a bank culture that embraces innovation. To be successful, banks need highly motivated, well-trained leaders who are able to utilize change. Banks that align their business priorities with their bank culture hone a clear strategic focus, while creating the platform to accelerate implementation and growth.

The playing field in banking is drastically different than even a few years ago. Leaders in today's competitive environment need to initiate processes for change in a way that can be successfully communicated across diverse stakeholders and those involved in driving performance.

Good ideas and strategies often fail because managers don't understand what is needed to translate those strategies into action or haven't created enough buy-in from those affected to overcome inertia and resistance to change. Today's leaders not only develop ideas and create insight, they also need to have the ability to implement strategic initiatives.

Let's look at just a few of the changes in banking where managers face challenges in developing innovative strategies and platforms for future growth.

Customer behaviors have changed and the use of technology has created a willingness and fluidity to shop around for products. Customers are more sophisticated; in the world of Google, they have options at their fingertips.

Laws and regulations have increased. The need for managers to fully understand how to efficiently embrace these laws is vital for the bank's future.

Competition is more aggressive, and customers are willing to look at other financial service providers as alternatives to YOUR BANK.

Next generations employees have different expectations and intrinsic motivations. Employees are looking for recognition, leadership opportunities and to be engaged in their own professional development within the bank.

Technology has revolutionized a bank's ability to provide efficient delivery of bank products across diverse platforms. Technology has also shifted the skills desired in bank employees, where the future of the "Customer Experience" is based on a culture that embraces technology platforms for bank products.

While everyone tends to understand that management is important, few managers understand how to improve this skill. Managers may know that some things could be improved and may inherently want to do better. Managers may not even understand behaviors they demonstrate that could be changed.

Creating Outcomes for Change

Let's talk about some of the major areas that affect managers directly and where improvements or change can be further developed to create desired outcomes. There are three basic questions that need answers:

1. If successful, what would be different (better) for the bank?
2. If successful, what will you do doing differently? That is, what would change for the better?
3. If successful, what would be different (better) for employees?

With those three questions in mind, further identification of issues and outcomes that are needed are the first critical steps involved in this process. This can be used as a method to engage in positive change at the organization level, within operating systems and for personal development.

Effective management is the key to a productive, efficient workplace. With appropriate leadership, bank employees are motivated to do their best work. They will be enthusiastic about their customers, coworkers, and their future career potential.

Steps Needed for Change

Several fundamental truths must be understood to support the change process and achieve success.

1. High-level strategic plans must be developed.
2. Tactical plans must be developed.
3. Staff must be onboard. They must understand they are part of the success of the project and how their jobs will be impacted.
4. Project plans with actions, responsibilities and milestones are essential components of success.
5. Objective performance measures must be in place.
6. Companies must be willing to understand shortcomings and failures in implementing new initiatives.

Overcoming barriers within teams or departments is critical for success. Managers must be able to create a working culture that can regroup, revise strategy and test out new ideas. As Amy Edmondson illustrates in her book "*Teaming*,"[i] leaders need to make it safe for people to speak up, collaborate, experiment, and share insights into how they measure success or gauge failures.

Steps include: the enrollment phase where the purpose of a project is clearly scoped; the preparation phase to safely explore new ideas or strategies; implementation phase with scheduled milestones; and the evaluation phase to de-brief and discuss what is working and assess results.

Robert Huckman and Bradely Staats provide a good deal of insight in high performing teams in their article "*The Hidden Benefits of Keeping Teams Intact*."[ii] Their research shows that teams who have a foundation of familiarity perform better in the long term in a way that competitors with a less coherent team can't replicate.

Bank leaders must genuinely care and communicate how each member of their organization contributes to the bottom line. Doing so goes a long way to strengthen teamwork and implement the changes needed for future success. ■

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[i] *Teaming: How organizations learn, innovate, and compete in the knowledge economy.* Amy Edmondson, p.78-79.

[ii] *The Hidden Benefits of Keeping Teams Intact.* Robert Huckman, Bradley Staats. December 2013.

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Counsel's Corner

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We have an account owned by a single-member LLC and the single member has died. Can the affidavit for collection of personal property be used to collect the funds in this account?

No, the affidavit for collection of personal property cannot be used in this instance. The reason is that the account is owned by the entity, rather than an individual, and the entity does not technically die. Instead, a personal representative should be appointed. The "shares" of the LLC may have transferred to someone upon the owner's death. It's possible they went to a spouse/child/etc. If they did pass to someone then they are now the owner of the LLC. If there was no business succession plan, then the "shares" became part of the estate. Once they are part of the estate, the personal representative can choose to dissolve the LLC and distribute the funds.

Should memo posted ACH transactions be included when we receive a garnishment or levy?

There are two possibilities depending on the source of the ACH credit. First, if the ACH is not a federally protected payment and if the ACH credits are available to the depositor under NACHA rules then they should be subject to the levy or garnishment. Second, if the ACH is from a federally protected source and it is received on the day of the account review, then it is not counted as a benefit transaction that occurred during the lookback period. The reason is because the lookback period begins prior to and does not include the date of the account review. The ACH would instead be considered part of the opening balance on the date of the account review.

Can a nonprofit corporation have a DBA, listed under the same TIN, which is a for-profit entity?

No. A DBA cannot be a different kind of entity from the original entity. Since the two entities are taxed under different sections, the two cannot be linked in that manner.

If money is withdrawn from an HSA is there a grace period in which the money can be re-deposited without penalty, similar to an IRA?

HSAs do not have such a grace period. Once money is withdrawn, or a purchase is made from an HSA, the withdrawal or purchase must be for a qualified medical expense, otherwise a tax penalty will be assessed.

If a power of attorney lists multiple successor attorneys-in-fact, how is it determined which successor attorney-in-fact becomes the acting attorney-in-fact?

The statutory short form power of attorney has a designated section for successor attorneys-in-fact. The section lists "first successor, second successor," etc. Absent instructions stating otherwise, the successor attorney-in-fact list on the statutory short form is meant to be a sequential succession plan if the acting attorney-in-fact either dies or resigns. As such, the third successor attorney-in-fact can only become the acting attorney-in-fact if the primary dies or resigns and the first and second successor attorneys-in-fact are deceased, resign, or refuse the appointment. ■

For more information and members only information on legal matters in banking, log onto minnbankers.com, and click on "Legal and Compliance."

Compliance Query

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What do we need to document adherence to the funds transfers Travel Rule?

The Travel Rule, see 31 CFR 1010.410(f), refers to the transmittal order requirements for funds transfers, which for BSA purposes means wire transfers of $3,000 or more. The Travel Rule requires that banks include additional information in the transmittal order when originating wire transfers. The transmittal order must include:

1. Transmittor's name and account number;
2. Transmittor's address;
3. Transmittal order's amount;
4. Transmittal order's date;
5. Recipient's financial institution;
6. All the following items that are received with the transmittal order:
   a. Recipient's name and address
   b. Recipient's account number
   c. Any other specific identifier of recipient; and
7. Transmittor's name and address or numerical identifier of their financial institution.

A common missing piece of information for banks is the transmittor's account number. There are similar Travel Rule requirements for banks that are acting as intermediary financial institutions.

Why can't we provide an initial advance of closing costs on home equity lines of credit (HELOCs)?

You can provide an initial advance of closing costs on HELOCs. However, the hurdle that banks often cannot clear is the accurate disclosure of all finance charges on the initial periodic statement. Under 12 CFR 1026.7(a)(6)(i) and comment #8, banks must itemize, by type, all finance charges on periodic statements. For a HELOC initial periodic statement this would include any finance charges that are financed by the HELOC or paid by the initial disbursement, including origination fees, settlement fees, life of loan flood monitoring fees, etc. As a result, many banks will require borrowers to pay any HELOC closing costs by check outside of any HELOC transaction to avoid the initial periodic statement issue. If banks finance any HELOC closing costs through the HELOC, then all finance charges must be appropriately disclosed; although, these initial finance charges need not be factored into the disclosed annual percentage rate.

Do we need to purchase new HMDA Notice of Availability signs?

There is a new HMDA notice requirement that is mandatory beginning January 1, 2018. Banks may purchase compliant notices from a variety of vendors. The CFPB has also provided the following suggested notice language:

HOME MORTGAGE DISCLOSURE ACT NOTICE

The HMDA data about our residential mortgage lending are available online for review. The data show geographic distribution of loans and applications; ethnicity, race, sex, age, and income of applicants and borrowers; and information about loan approvals and denials. HMDA data for many other financial institutions are also available online. For more information, visit the Consumer Financial Protection Bureau's website (www.consumerfinance.gov/hmda).

Banks may prepare their own notice using the CFPB's suggested language. The HMDA notice must be posted in the home office and each branch office physically located in each MSA and each MD. ■

Ask the Agent

Connie Mack
Senior Plan Administrator-Dental and Insurance Agent
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I have a High Deductible Health Plan (HDHP) and own a Health Savings Account (HSA). My spouse is over 65 and receives Medicare and Social Security Benefits. Can the account owner be reimbursed from the HSA for the spouse's co-pays and other medical expenses?

The spouse's qualified expenses can be reimbursed from the HSA because the spouse's other coverage does not affect the account owner's eligibility. However, the spouse is not eligible to open or contribute to his or her own HSA. ■

For a full list of MBA's insurance offerings, log on to minnbankers.com and click on the "Group Insurance" button.

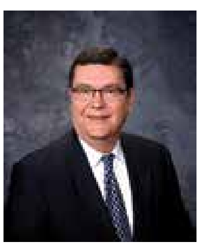
Jason Pohlen has been hired as SVP/ Commercial Lender at Bell Bank, located in Alexandria. In his new position, Pohlen will develop and manage client relationships with commercial banking opportunities in the Alexandria market.

Pohlen graduated from Minnesota State University Mankato and has been in the banking field for nearly 25 years.

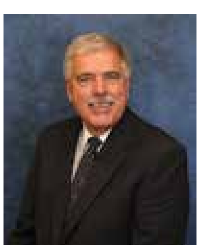
Falcon National Bank is pleased to announce **Joe Bahen** as the Vice President of Finance. He brings 12 years of finance, accounting and audit experience to Falcon National Bank, most recently as Director of Financial Planning and Analysis with UnitedHealth Group in Minnetonka.

Derek Hemmer recently joined Falcon National Bank as a Business Banker with his primary office in their Foley location. Derek brings with him 13 years of commercial lending experience in both the Minnesota and Colorado Markets. Derek is excited to be back to his roots and settle down in the Central Minnesota community he calls home.

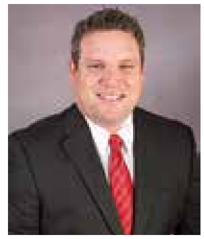
Redwood Financial, Inc. announces the following leadership changes:



Dean K. Toft, President and CEO of Redwood Financial, Inc. and CEO of its wholly owned subsidiaries, HomeTown Bank and Community Insurance Brokerage, Inc., announced that he will retire effective January 1, 2018. He will continue to serve on the Board of Directors of Redwood Financial, Inc. and its subsidiaries. Dean Toft has been very active in community affairs in Redwood Falls, serving on numerous boards of directors of local civic and development groups. He was inducted into the Redwood Area Education Hall of Fame in 2015. Toft was also active in the Minnesota Bankers Association serving two terms on the MBA Board of Directors and served as Chairman of the association in 2015-2016.



The Board of Directors of Redwood Financial, Inc. and HomeTown Bank named **Timothy Grabow** as President and CEO of both entities effective January 1, 2018. Grabow joined HomeTown Bank as Chief Operating Officer in 2006 and was promoted to President of HomeTown Bank in 2014. He also serves as a director of Redwood Financial, Inc. and HomeTown Bank. Grabow has worked in the banking industry for over 37 years.



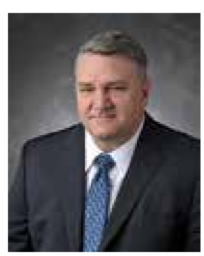
Douglas Schweim, President of Community Insurance Brokerage, Inc. has been named as the Chief Executive Officer of that entity effective January 1, 2018. He also serves as a director of Community Insurance Brokerage, Inc. and as Vice President of HomeTown Bank. Schweim joined Community Insurance Brokerage, Inc. and HomeTown Bank in 2006. He was promoted to President of Community Insurance Brokerage, Inc. in 2010. Doug has been in the banking business since 1999 and a licensed insurance agent since 2001.

Winona National Bank is pleased to announce **Teresa (Terry) Crolius** has joined the Bank as Vice President and Business Banking Officer. Crolius will focus on growing Business Banking relationships and assisting clients with their business management needs. She brings over 25 years of business and agricultural lending experience to Winona National Bank. Crolius and her husband, Jim, live in La Crosse with their two golden retrievers. The couple has two grown children (Zachary and Mariel) and enjoys kayaking, hiking, college football, and watching classic movies.

Mark Wallace has been promoted to VP/ Ag Commercial Lender at Bell Bank in Moorhead. In his new position, Wallace will assist farmers and business owners by accessing and managing credit to support their operations.

Originally from Northwood, N.D., Wallace earned a business administration degree from North Dakota State University and has been in the banking field for eight years, holding positions as teller and credit analyst for ag and business clients. He has been with Bell since 2013. Wallace lives in Fargo with his wife, Jenna.

Joe Watzke has been promoted to Moorhead President at Bell Bank in Moorhead. In his new position, Watzke will provide leadership, direction and guidance of all bank activities. Originally from Morris, Minn., Watzke graduated from Minnesota State University Moorhead and has been in the banking field for 17 years, the last 11 years with Bell.



William C. Rosacker, President and CEO of United Bankers' Bank (UBB) is pleased to announce the addition of **John Beerling** as Vice President of International Business Development. Beerling is a veteran in the industry with more than 20 years of experience with international markets and foreign exchange. Prior to joining UBB, he managed sizeable portfolios at two of the largest banks in the nation. Beerling holds a Bachelor of Arts Degree in Economics & Business Administration and also earned his MBA with an emphasis in Finance from the University of St. Thomas in St. Paul.

Bankers on the Move continued on page 25

Business Valuation Software continued from page 14

An asset sale typically includes only inventory/supplies, fixed assets, and all intangible assets. It excludes all liquid financial assets (cash, A/R) and all liabilities. A stock sale, on the other hand, involves the full transfer of the legal entity, including all liquid financial assets and liabilities.

Risks

Rule of thumb averages may be accurate indicators for businesses that have similar performance and profitability to the industry averages, as frequently measured by SBA lenders with a comparison to the Risk Management Association (RMA). A business with expenses and profits similar to RMA industry averages may sell for a price in line with the rule of thumb formula. However, most businesses are unique, and applying a rule of thumb to a business that varies significantly from the industry average is not appropriate.

Even though business valuation software reports are generated considering as many company, industry, and location specific details as available, the value presented is still an automated estimation of the fair market value of the business and its assets and liabilities. Some events and circumstances that might impact the overall valuation of a specific business may not be taken into account. The software is used for general estimates. As a result, the overall valuation should be considered a frame of reference and not an official appraisal.

Nearly every professional valuation association does not allow for a rule of thumb to be used as the primary valuation methodology. The new Institute of Business Appraisers (IBA) Professional Standards, which are in parity with the Association of International CPA's Statement on Standards for Valuation Services, specifically state: "Rules of thumb are acceptable as reasonableness checks, but should not be used as [a] stand-alone method." Accordingly, relying on rules of thumb alone to value a business may result in a value that will not be defensible before the IRS or in a courtroom.

Conclusion

Rules of thumb do not consider the specific characteristics of a company that may create additional value when compared to the industry or similar companies. Technology and big data in certain business valuation software tools attempt to capture some of the specific characteristics of a business to give it a more accurate value. I believe technology has come a long way and will continue to improve, especially in the field of business valuation. The more access to data we have, the more we can properly assign values to specific companies. I would recommend utilizing technology to determine if a proposed business transaction seems reasonable prior to accepting an SBA or conventional loan application. Hopefully in this way, there will be fewer surprises if and when a formal business valuation is performed. ■

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2018 Community Champion Recognition

The MBA wants to recognize the important connection banks have with their communities and to honor that vital role, the MBA announces the fifth annual Community Champion Recognition. It's a great way for your bank to get the deserved recognition for your community support.

In 2017, we recognized 24 banks for community involvement. These 24 banks worked with hundreds of organizations in their communities, providing funding, volunteers, materials, supplies, or food for their neighbors and volunteered over 34,000 hours of time. Recipients of the recognition ranged in size from small community banks to large banks with multiple branches. Many of these banks reported over 50 percent of the bank's employees volunteered on behalf of their bank for organizations.

It's easy to apply for your 2018 recognition – and the MBA will publicize your good deeds in the *MBA News*, at Bank Day at the Capitol, in Social Media and provide you with a press release and certificate for display in your bank. We've included an application with this issue of the *MBA News* and it's also on our website. The deadline for the 2018 Community Champion Recognition is January 26, 2018.

Staff contact is Chris Harrison, chrish@minnbankers.com, 952-857-2634. ■

Conference of State Bank Supervisors Issues CECL Readiness Tool

Editor's Note: The MBA is sharing the following announcement from the CSBS regarding a tool that may be beneficial for banks in planning for future CECL requirements. The tool can be found at: https://www.csbs.org/cecl-readiness-tool.

The CSBS State Supervisory Processes Committee, in consultation with state examiners, has developed and approved a tool to help financial institutions prepare for the coming changes associated with the Financial Accounting Standards Board's (FASB) release of Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326) commonly referred to as the Current Expected Credit Losses (CECL) method.

The tool provides a framework that a financial institution could use to plan for the eventual implementation of these accounting changes. CECL will have a significant impact on the way a financial institution estimates and provides for credit losses and early preparation is prudent. The associated examiner guide provides talking points, limitations, and other information examiners might find helpful if the tool is encountered in an examination. As explained in the examiner guide, the tool is not intended to establish regulatory expectations or deadlines.

This tool is offered as a resource and should be used as-needed. While some institutions may already be planning for CECL implementation, smaller institutions, in particular, reported difficulty understanding the changes and sought a straightforward tool to begin the planning process. This tool offers a means to get started and helps an institution set internal goals for the different implementation steps.

It is understood that each institution will approach the implementation of CECL differently, and this tool is not an attempt to standardize the implementation process or set forth regulatory expectations. Questions about the tool or examiner guide should be directed to Kyle Thomas (kthomas@csbs.org or 202-407-7131). ■

The World is Changing: Are You Asking the Right Questions?

By Steve Davis

Over the next year, some significant changes are expected for the financial sector. Many are predicting one more rate increase before the end of 2017 and more in the years following, should the economy stay on its current track. The Fed, as noted by Alan Blinder in our June 2017 edition of Viewpoints, has offered a detailed plan for shrinking its balance sheet "by $50 billion per month, divided $30 billion/$20 billion between Treasuries and MBS." Both the rate increases and downsizing of the Fed's balance sheet could well lead to stronger deposit competition in the near term with expectations that competition will intensify over the long run.

On the political front, the combination of the expectation that Congress will pass a regulatory relief package sometime this year or early next and the coming changes in leadership at the Fed, Treasury, FDIC, and CFPB over the next year could create a very different regulatory environment for the financial sector.

Given the changes ahead, banks must plan now for how to take advantage of the likely opportunities and challenges that may arise. The first step in developing a plan is making sure you are asking the right questions. Some of the questions we believe banks should be discussing include what is the likely impact of all this on deposits (including deposit relationships and pricing), profitability, growth, and interest rate risk strategies?

The answers to these questions will help institutions identify their priorities and needs. But figuring out what the right solution should be is the real challenge. We believe most banks will need more options, not less. This will require a toolkit that can provide a range of effective, flexible selections—multiple levers that can be activated and calibrated based on marketplace changes and bank needs. In identifying what tools to put in your toolkit, banks should consider the following:

- What products and strategies are other banks having success with?
- What tools could provide a competitive advantage?
- Are the solutions customer-friendly and appealing, and what is the associated size of the opportunity?
- Which options do regulators seem to look at more favorably?
- Which options can be implemented at our bank, given its employees and systems?
- How much work will be involved? Will employees embrace the change required?
- Which solutions fit with our existing ALCO and other policies?
- Which solutions will have to be evaluated by a New Products Committee?

The next few years promise change and opportunity. We pride ourselves on developing innovative solutions that have addressed long-standing business problems for our banks. We believe that many of our existing services—such as CDARS®, Insured Cash Sweep®, and IND®—will help financial institutions address the challenges discussed above. But we are also working around the clock to develop additional tools to help banks better manage their balance sheets, attract deposits, improve and strengthen customer relationships, increase fee income, and improve profitability. ■

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Are Your Interest Rate Risk Assumptions Going up in Smoke?

By Lester Murray

After the mortar sets on that new fireplace flue, the only way to know if it's really going to work is to build a fire and see where the smoke goes. Some might not immediately discern how that relates to interest rate risk, but the comparison helps illustrate some similar circumstances. All the assumptions about how those rate-sensitive elements on the balance sheet will react to higher interest rates never get tested until the fire gets going; until rates actually rise.

A False Sense of Security?

Since the first rate hike in almost ten years was implemented by the Federal Open Market Committee at the end of 2015, a handful of increases to the Fed Funds Target Rate have followed and it's possible, even probable, there will be more. So, now that the Zero Interest Rate Policy of the Fed is a couple of years behind us, it may be a good time to take a look and make sure the smoke is actually moving up the chimney. Or, in the context of interest rate risk, has the actual behavior of the balance sheet played out as your assumptions predicted?

Many risk managers probably feel like they already have an answer to that question. Perhaps they do, but maybe they don't. These are the risk managers that point to the "spot-on" results of their last several years of backtesting. After all, the purpose of backtesting is to compare projected results to actual results, and if one's assumptions are materially "off," those backtesting results won't be so "spot-on" will they? But, what if there's nothing to actually backtest? Since the Fed Funds rate became zero-bound in December of 2008, never have rates been so low for so long. Add to that the historic lack of volatility, and we end up backtesting Ground Hog's Day – the same thing over and over. While certainly not without value, it's probably safe to say that the interest rate environment since 2009 has not really put those assumptions to the test.

Check Those Smoke Detectors

This is a concern that isn't new. Since the FFIEC Interagency Advisory on Interest Rate Risk was published in 2010, regulatory agencies of all stripes have reminded everyone, time and again, that assumptions development needs to be institution specific and empirically justifiable. Some may have noticed that most of their attention has been directed toward the behavior of non-maturing deposits (NMD) or rather, the behavior of the owners of all those non-maturing deposits (particularly those assumptions governing their pricing behavior). One can understand the concern since it's not uncommon for NMD balances to represent more than half of total assets. Because of their prominent position on community bank balance sheets, even small variations in behavior can translate into sizeable "misses" when comparing projected results to actual outcomes. Regulators understand this and have quite reasonably encouraged the sensitivity testing, or stressing, of NMD related assumptions.

Receiving less attention are some of the pricing assumptions governing the behavior of interest-earning assets, like investments and loans. The preponderance of community banks' modelling exercises assume asset pricing betas of at least 80% and often 100%. Additionally, the timing lag between the change in market rates and the manifestation of that change on banks' lending rates is often very short or non-existent. It might be instructive, now that several increases in the prime rate have occurred, to compare the current schedule of lending rates at your bank to the rates that were in place before the Fed began its rate normalization process. As critical as NMD pricing assumptions are to the accurate projection of interest expense, the validity and reasonableness of asset pricing assumptions are just as crucial to the accurate projection of interest income. If your current lending rates are little changed from their pre-normalization levels, it might be time for the Asset-Liability Committee to re-evaluate some of those assumptions before you start smelling smoke. ■

Lester Murray
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MBA ASSOCIATE MEMBER

The 5 Billion Dollar Scam continued from page 12

fraudulent funds in their personal accounts and are then directed by the subject to quickly transfer the funds to another bank account, usually outside the U.S., upon direction, mules may open bank accounts and/or shell corporations to further the fraud scheme.

Statistical Data

The BEC/EAC scam continues to grow, evolve, and target small, medium, and large businesses. Between January 2015 and December 2016, there was a 2,370% increase in identified exposed losses[3]. The scam has been reported in all 50 states and in 131 countries. Victim complaints filed with the IC3 and financial sources indicate fraudulent transfers have been sent to 103 countries.

Scenarios of BEC/EAC

Based on IC3 complaints and other complaint data, there are five main scenarios by which this scam is perpetrated.

<u>Scenario 1: Business Working with a Foreign Supplier</u>

A business that typically has a longstanding relationship with a supplier is requested to wire funds for an invoice payment to an alternate, fraudulent account.

<u>Scenario 2: Business Executive Receiving or Initiating a Request for a Wire Transfer</u>

The e-mail accounts of high-level business executives (Chief Financial Officer, Chief Technology Officer, etc.) are compromised. The account may be spoofed or hacked.

<u>Scenario 3: Business Contacts Receiving Fraudulent Correspondence through Compromised E-mail</u>

An employee of a business has his or her personal e-mail hacked. This personal e-mail may be used for both personal and business communications. Requests for invoice payments to fraudster-controlled bank accounts are sent from this employee's personal e-mail to multiple vendors identified from this employee's contact list.

<u>Scenario 4: Business Executive and Attorney Impersonation</u>

Victims report being contacted by fraudsters who typically identify themselves as lawyers or representatives of law firms and claim to be handling confidential or time-sensitive matters. This contact may be made via either phone or e-mail.

<u>Scenario 5: Data Theft</u>

Fraudulent requests are sent utilizing a business executive's compromised e-mail. The entities in the business organization responsible for W-2s or maintaining PII, such as the human resources department, bookkeeping, or auditing section, have frequently been identified as the targeted recipients of the fraudulent request for W-2 and/or PII.

Suggestions for Protection

Businesses with an increased awareness and understanding of the BEC/EAC scam are more likely to recognize when they have been targeted by BEC/EAC fraudsters, and are therefore more likely to avoid falling victim and sending fraudulent payments.

Businesses that deploy robust internal prevention techniques at all levels (especially for front line employees who may be the recipients of initial phishing attempts) have proven highly successful in recognizing and deflecting BEC/EAC attempts.

Some financial institutions reported holding their customer requests for international wire transfers for an additional period of time to verify the legitimacy of the request.

The following list includes self-protection strategies:

- Avoid free web-based e-mail accounts: Establish a company domain name and use it to establish company e-mail accounts in lieu of free, web-based accounts.
- Be careful what you post to social media and company websites, especially job duties and descriptions, hierarchal information, and out-of-office details.
- Be suspicious of requests for secrecy or pressure to take action quickly.
- Consider additional IT and financial security procedures, including the implementation of a two-step verification process. For example:
    - Out-of-Band Communication: Establish other communication channels, such as telephone calls, to verify significant transactions. Arrange this two-factor authentication early in the relationship and outside the e-mail environment to avoid interception by a hacker.
    - Digital Signatures: Both entities on each side of a transaction should utilize digital signatures. This will not work with web-based e-mail accounts. Additionally, some countries ban or limit the use of encryption.
- Immediately report and delete unsolicited e-mail (spam) from unknown parties. DO NOT open spam e-mail, click on links in the e-mail, or open attachments. These often contain malware that will give subjects access to your computer system.
- Do not use the "Reply" option to respond to any business e-mails. Instead, use the "Forward" option and either type in the correct e-mail address or select it from the e-mail address book to ensure the intended recipient's correct e-mail address is used.
- Consider implementing two-factor authentication for corporate e-mail accounts. Two-factor authentication mitigates the threat of a subject gaining access to an employee's e-mail account through a compromised password by requiring two pieces of information to log in: (1) something you know (a password) and (2) something you have (such as a dynamic PIN or code).
- Beware of sudden changes in business practices. For example, if a current business contact suddenly asks to be contacted via their personal e-mail address when all previous official correspondence has been through company e-mail, the request could be fraudulent. Always verify via other channels that you are still communicating with your legitimate business partner.
- Create intrusion detection system rules that flag e-mails with extensions that are similar to company e-mail. For example, a detection system for legitimate e-mail of abc_company.com would flag fraudulent e-mail from abc-company.com.
- Register all company domains that are slightly different than the actual company domain.

- Verify changes in vendor payment location by adding additional two-factor authentication such as having a secondary sign-off by company personnel.
- Confirm requests for transfers of funds. When using phone verification as part of two-factor authentication, use previously known numbers, not the numbers provided in the e-mail request.
- Know the habits of your customers, including the details of, reasons behind, and amount of payments.
- Carefully scrutinize all e-mail requests for transfers of funds to determine if the requests are out of the ordinary.

A complete list of self-protection strategies is available on the United States Department of Justice website www.justice.gov in the publication titled "Best Practices for Victim Response and Reporting of Cyber Incidents." ■

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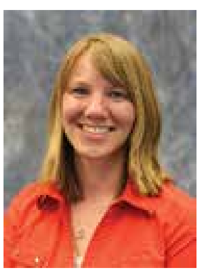
1. The IC3 uses descriptions of crime types for categorization purposes.
2. Money mules are defined as persons who transfer money illegally on behalf of others.
3. Exposed dollar loss includes actual and attempted loss in United States dollars.

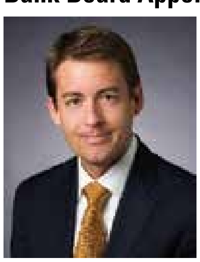
Bankers on the Move continued from page 20

Awards



Winona National Bank is pleased to announce **Amanda Wenzel**, Credit Officer, as the recipient of its third quarter Community PRIDE Award. Community PRIDE Awards recognize WNB employees for exceptional volunteer service to programs, organizations, and initiatives that contribute to the strength and vitality of the communities served. Wenzel serves as Choir Director for St. Matthew's Lutheran Church, and in the first nine months of 2017, she has volunteered over 170 hours to the program.

Bank Board Appointment



Bridgewater Bank is pleased to announce **David Volk** has been appointed to its Board of Directors team. Mr. Volk currently serves as principal at Castle Creek Capital, an alternative asset management firm focused on the community banking industry, located in Rancho Santa Fe, California. He has been with the company since 2005 and has led or supported investments in numerous recapitalization, distressed and growth situations. ■

If you have an announcement you would like to include, please send it to Eric Hauth at erich@minnbankers.com. Also look for *Bankers on the Move* in the "Human Resources" section of minnbankers.com.

Minnesota Bankers Association

LEADERSHIP DEVELOPMENT ACADEMY

Are YOU the future of banking?

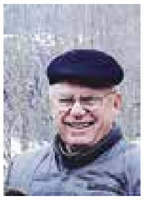
The future of banking is now. Cultivating high-performing leaders is the only sure-fire strategy to succeed in today's rapidly changing banking environment.

This world-class leadership development program is designed specifically to hone the leadership skills of high-potential, mid-career bankers in Minnesota. It will be an unforgettable experience that will help shape the rest of your career.

To learn more and apply, please visit www.minnbankers.com/leadershipacademy. For questions, contact Eric Hauth, Director of Communications and Education, at erich@minnbankers.com.

Applications must be received by March 31, 2018.

In Memory of...



Paul E. Lindholm, 89, a resident of Fergus Falls, died Saturday, December 2, 2017, after several years of Lewy body dementia, at Homestead Pioneer Cottage. Paul was a long-time banker, serving as President of Blue Earth State Bank from 1960–1979 when the bank was sold. He then acquired Farmers and Merchants State Bank of Clarkfield, working with his son, Steve. During the 1980s, he was chair of the American Bankers Association Ag Committee and helped draft legislation at the national level to deal with the ag crisis.

Paul acquired Security State Bank of Fergus Falls in 1988. Its assets increased fourfold before he sold it to Steve in 2012. During that time, he was also chairman of the Minnesota Bankers Association.

Paul's mission was to help farmers and communities reach their financial potential. He was also deeply concerned about those who were less fortunate – in his own community and around the world.

Source: Fergus Falls Daily Journal (http://www.fergusfallsjournal.com/2017/12/paul-lindholm-3/)

Welcome New Associate Member

PCI Performance Management
13585 Gossamer Way
Apple Valley, MN 55124
612-669-3567
www.prairiebankconsulting.com

Contact: Loren Prairie
lorenprairie@prairiebankconsulting.com

PCI provides the expertise, planning and assistance to successfully implement strategic initiatives that will allow the banks to compete effectively in a changing market. We provide a range of services focusing on strategic planning, board assessments, executive and management coaching, organization reviews, operations and technology assessments.

If you have a positive working relationship with a business that other bankers could benefit from, please have them contact Nicole Hanger at the MBA at nicoleh@minnbankers.com or 952-857-2630.

SAVE THE DATE!

We Can't Wait to See You at the

2018 MBA Annual Summit
June 10-12, 2018
Madden's Resort, Brainerd

Lots of smiles at the 2017 Summit in Duluth!

Retaining Millennial Customers continued from page 15

3. Reward, Reward, Reward

Millennials already use online banking services in great numbers. We know they want these tools – but is it possible to further move the needle and increase usage? Definitely.

One factor can drive the most usage with millennials: rewards!

According to our study, rewards programs are the No. 1 way to increase millennials' online banking usage – ahead of increased security. The results showed that 46 percent of millennials say they would absolutely use their bank's online services more often if the institution had a rewards program for usage.

Programs that increase customer savings, like prize-linked accounts or gamification to help customers meet their financial goals, are already gaining traction. Strategies like these foster a connection with millennial customers and engage them beyond the traditional bank-to-customer relationship.

Looking ahead, millennials will continue to dominate the conversation surrounding customer acquisition and retention. By implementing these three strategic initiatives, your institution can forge a clear path forward. For even more insight on the banking habits of millennials and other generations, download CSI's full report, Banking Trends through a Millennial Lens. ■

Kedran Whitten
Chief Marketing Officer
Computer Services, Inc.
Kedran.whitten@csiweb.com
800.545.4274

FINANCIAL COUNSELING OFFERED TO MINNESOTA FARMERS

One-to-one financial counseling for Minnesota farmers experiencing serious financial distress is available from University of Minnesota Extension.

Farm financial analysts are available throughout the state. They are trained professionals who will help farmers explore options.

All services are free and confidential.

To set up an appointment or learn more, contact the Farm Information Line:

1-800-232-9077

Index of Advertisements

Advertisements
The contents of advertisements that appear in the MBA News are solely the responsibility of the advertisers. Appearance of an advertisement in the MBA News does not constitute a recommendation or endorsement by the association or the MBA News of the goods or services offered. Publication of any advertisement may be subject to review by the MBA News Policy Board. For more information on advertising in MBA News, contact Terry Tiller at terryt@minnbankers.com.

Articles
MBA News regularly publishes a variety of by-lined columns authored by individuals whom we consider to be knowledgeable in their respective fields and who have a valuable message to share with Minnesota's banking community. Opinions in these columns, however, are those of the authors and do not necessarily represent the opinions of the Board of Directors, members, or staff of the Minnesota Bankers Association.

MBA News is printed on 30% recycled content paper.

Debit Chip Card continued from page 13

- **Terminal Configurations** – Merchants and their acquirers make a number of choices when configuring payment terminals. These include preferences for AID selection and PIN, signature or PINless verification preference.
- **Network Routing Choice** – Acquirers make routing decisions based on the transaction information captured by the terminal.

Suggested Best Practices for Issuers

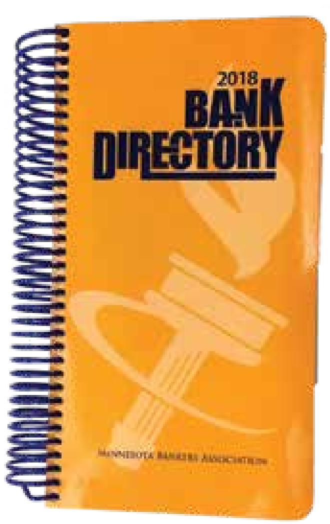
To assist your cardholders in navigating this complex environment, we suggest the following best practices:

1. If you haven't already done so, enable a common AID on all of your debit cards as soon as possible. If you issue PIN-only cards that are not enabled on one of the primary debit networks, license a shared AID from the Debit Network Alliance for those cards.
2. Encourage merchants that have retail accounts at your bank to support a U.S. Common Debit AID to help maximize their routing choices, reduce costs and improve the cardholder experience.
3. Educate your cardholders about the different verification methods they are likely to encounter in different merchant environments. Let them know that some fast-food restaurants and grocery stores often opt to use PINless debit for lower-value transactions.
4. Inform cardholders that they may encounter terminals that ask the consumer to choose the AID by asking them to select either "U.S. Debit" or a branded network. Suggesting the U.S. Debit option will maximize the routing options and reduce your costs.
5. Help your customers understand that their experience at the terminal may vary between PIN, PINless and signature verification. Similarly, they may be asked to verify mobile payments with their fingerprint or with their fingerprint and PIN. Let them know that this variation may persist for the foreseeable future.

For more information on U.S. Common Debit AIDs, visit debitnetworkalliance.com or uspaymentsforum.org. ■

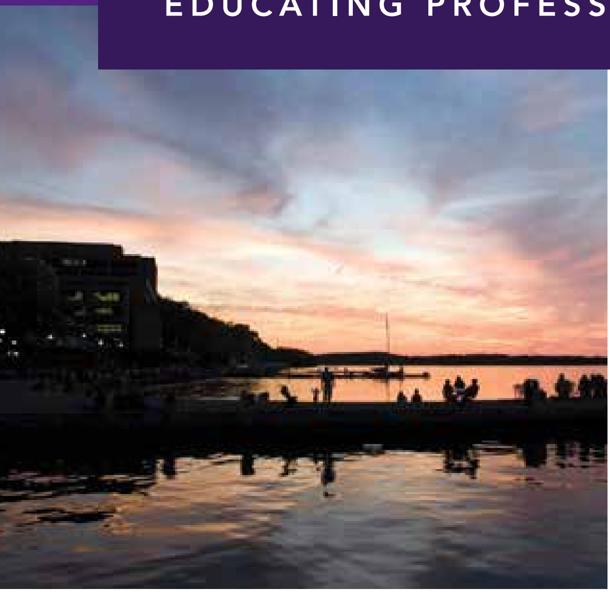
Bryan Manka
Senior Product Manager, Emerging Technologies
PULSE Network

2018 MBA Directory Now Available!



The MBA and M. Lee Smith have teamed up once again to provide you with a complete listing of banks and non-bank competitors. A special MBA section of the directory includes the MBA Board of Directors, MBA staff, a listing of MBA committees and task forces, associate members, and a district list containing cities, banks, and board representatives for all member banks.

Each CEO Bank and Associate Member will be mailed a complimentary copy of the directory. To order additional copies of the directory return the form included with this mailing or go to minnbankers.com and click on the link on the home page. ■



Mid-State Auto Auction
since 1983

We'll sell your repos, so you can get back to banking.

Transportation

We pick up vehicles right at your bank or the impound lot in all of Minnesota, North Dakota, eastern South Dakota, and western Wisconsin.

Selling

We hold an auction every Friday (52 sales/year). To get the best results for our financial institutions, MSAA runs all repos at the top of our busiest lane when buyers are eager to buy, and Dee, our Repo Manager, personally represents each unit during the auction.

Services

- Full detailing and de-identifying department
- Full-time mechanic on staff
- Full condition report with pictures
- Market reports available to estimate values

About Us

With over 34 years in the business, MSAA has built a huge buyer base that will purchase your repos. We pride ourselves on being a family owned and operated business committed to service, integrity, and value. What's more? We have the lowest rates in the state of Minnesota.

Contact us today for an easy process and great results!

Dee Sullivan
Fleet, Lease, and Repo Manager
dee@msaanym.com
800-458-5506

Mid-State Auto Auction | 310 Bach Avenue, New York Mills, MN 56567 | www.msaanym.com

January 1, 2018

MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

Dear Minnesota Banker:

The Minnesota Bankers Association Nominating Committee invites your suggestions for a nominee for **MBA Vice Chair/Treasurer for 2018-2019**.

Association bylaws state that the nomination shall be made by a nominating committee consisting of five Past Chairs of the Association that are active in banking; including the three most recent Past Chairs and two designated by the Board of Directors. As the Immediate Past Chair, I serve as the Nominating Committee Chair. Members of this year's Committee, besides me are Steve Daggett, Midwest Bank, Detroit Lakes; Steve Huston, BANKWEST, Rockford; Paul Pieschel, Farmers & Merchants State Bank, Springfield; and Dean Toft, HomeTown Bank, Redwood Falls.

For the 2018-2019 year, the Committee will nominate a banker for the position of Vice Chair/Treasurer, to be elected at the MBA Annual Summit on June 12, 2018. The Vice Chair/Treasurer will succeed to the office of Chair, and then to Past Chair.

Enclosed is a form for your use in suggesting a candidate for Vice Chair/Treasurer. We have asked that background information be included concerning bankers to be considered by the Committee. As always, past and current involvement with the Minnesota Bankers Association or our industry is important. The Committee will receive nominee suggestions until March 15, 2018.

We will appreciate your careful consideration of qualified future leaders for MBA. Feel free to contact any of the Committee members if you have questions or comments.

Sincerely,

Gail Mikolich
Chair, Nominating Committee
Northeast Bank, Minneapolis

8050 Washington Avenue South · Suite 150 · Eden Prairie, MN 55344-3821
Phone: 952.835.3900 · *MN Toll Free:* 866.835.3900 · *Fax:* 952.896.1100 · www.minnbankers.com

I am pleased to submit:

Banker's name: ____

Title: ____

Bank: ____

for consideration as a candidate for Vice Chair/Treasurer of MBA 2018-2019.

Candidate information to be considered:

1. Current responsibilities in bank:

____
____
____
____

2. Banking experience:

____
____
____
____

3. Educational background:

____
____
____
____

4. MBA or other banking organization experience (committees, board etc.):

____
____
____
____

Please fax your nomination to the MBA office:
Attn: Kim Philipson (952) 896-1100 or email kimp@minnbankers.com

Pioneer Banker Nomination Form

The Minnesota Bankers Association (MBA) is proud to recognize MBA member bankers who have been leaders of the industry for 50 years or more. All eligible nominees will be inducted into the MBA Pioneer Club at a luncheon at the MBA Annual Summit on June 12, 2018, at Madden's Resort in Brainerd, Minnesota.

Who is eligible for induction into the Pioneer Club?

Any Minnesota banker working for an MBA member bank who has attained at least 50 years of active service by June 30, 2018, is eligible. U.S. military service counts in the 50-year span if the individual was in banking prior to and subsequent to the time spent in the military. Years after retirement in which the candidate works part-time for a bank as a consultant or as a member of the Board of Directors may be counted toward the 50-year total; however, these endeavors must be the principal endeavors of the candidate.

How many years has the nominee been in banking? ______________

Please include a photo and a short narrative of the individual's banking career (no more than 150 words). MBA will publish brief bios of the Pioneer Bankers at the recognition luncheon, in our *MBA News* magazine, and send press releases to local newspapers.

(Pioneer banker candidates may be nominated or can nominate themselves.)

NOMINATION FORM

Nominee ____

Bank ____

Bank Address ____

City/State/Zip ______________________________ Phone ______________

Submitted by ____

Email ______________________________ Phone ______________

Return form to Kim Philipson at the MBA office **no later than April 1, 2018,** by fax (952-896-1100) or by mail: 8050 Washington Avenue South, Eden Prairie, MN 55344.

MBA's Bank Day at the Capitol: Building Relationships & Creating Connections

MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

Thursday, March 22, 2018
St. Paul** • 10:00 a.m. – 3:00 p.m.

Who should attend and why?

- From CEOs to tellers, your involvement is the key to our strength!

Start the day with:

- Important updates on legislative issues and background information from the MBA Government Relations team
- Speakers, including House and Senate leadership

The afternoon at the Capitol will include:

- Visits with your local legislators
- Committee meetings and hearings

REGISTRATION FORM

(PLEASE PRINT OR TYPE. One registrant per form – copy form if needed.)

Last Name ______________________ First Name ______________________ M.I. *(required)* ________

Bank ______________________ Phone ______________________

Bank Address ______________________ Fax ______________________

City/State/Zip ______________________ Mail Code/Station ______________________

E-mail ______________________

***REQUIRED*: TO SCHEDULE MEETINGS WITH YOUR LOCAL LEGISLATORS, WE NEED YOUR *HOME ADDRESS*:**

____

☐ I will be attending the morning session/luncheon **ONLY**.

PAYMENT OPTIONS: Check enclosed ☐ Bill bank ☐ Visa/MC ☐ Amex ☐ Amount due $________

Account # ______________________ Exp. Date ____________

Signature ______________________

Name on Card ______________________

LODGING: *We have rooms reserved for Wednesday, March 21st, at Hampton Inn & Suites Downtown St. Paul, W 7th Street, St. Paul, for $159 per night + $27 per day valet parking.* **The cut-off date is February 21, 2018.** *Please call 651-224-7400 to reserve a room and identify yourself with the Minnesota Bankers Association.*

CANCELLATION POLICY: MBA reserves the right to cancel programs due to insufficient enrollment, instructor illness, or other reasons. Participants wishing to cancel must inform MBA in writing prior to the event. Send cancellation notices to maryh@minnbankers.com. A cancellation fee of 25% of the program cost will be charged for withdrawing, or you may send a substitute. The full program fee will be charged for withdrawing after the event has taken place or a no-show.

NON-MEMBERS: Qualified non-members are encouraged to apply. Please call our office for further information.

SPECIAL NEEDS: If you have a disability that may affect your participation in the program, please send MBA a statement regarding any special needs at least two weeks prior to the program. We will contact you to discuss accommodations.

**** A confirmation letter will be emailed to registrants including location, agenda, maps, and parking voucher.**

$75.00 Members / $85.00 Non-members / Please remit payment to the MBA, Attn: Registrar

MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

AMERICAN BANKERS ASSOCIATION

The MBA Washington Trip/ABA Government Relations Summit • April 23-25, 2018

We are partnering with the ABA and state associations across the country to make sure our voices are heard at the Capitol!

It's hard to imagine a more important year for bankers to head to Washington, D.C!

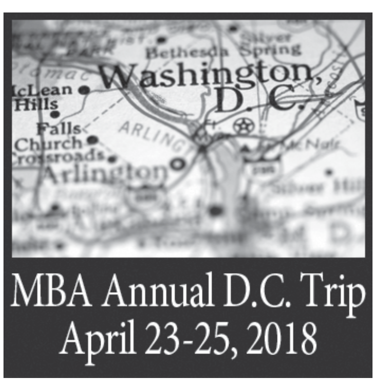
This year the MBA's Washington, D.C. Trip will again be joining the American Bankers Association's (ABA) Government Relations Summit as one supercharged conference.

The ABA will provide briefings on current legislation, regulations and the situation in the U.S. Capitol. During the event, we will hear from Congressional and regulatory leaders and also make a trip to Capitol Hill to meet with your individual member of Congress. This is an excellent opportunity to provide your feedback on the key issues impacting the banking industry.

The MBA Washington Trip/ABA Government Relations Summit is open to all members of the Minnesota Bankers Association (bankers do not have to be a member of the ABA to attend the trip.)

**Highlights of the MBA Washington Trip/
ABA Government Relations Summit:**

- Meet with Minnesota Senators and U.S. Representatives
- Receive briefings by **Federal Reserve, Federal Deposit Insurance Corporation** (FDIC), **Office of the Comptroller of the Currency** (OCC), and the **Consumer Financial Protection Bureau** (CFPB)
- Hear from other key individuals regarding the banking industry
- Network with bankers from both Minnesota and around the country



Registration Check list:
(please go through the checklist below before registering)

Register with both the MBA and ABA.

- The MBA registration form is attached to this sheet. Please fill it out and fax it back to 952-896-1100 or email to maryh@minnbankers.com.
- The ABA registration must be done online. Please fill it out at aba.com/Summit.

Register for the hotel via the ABA.

- This year's hotel will be the Washington Marriott Marquis. The registration for this hotel should be completed through ABA's online registration form.

Please Note: there is no registration fee with the ABA form

2018 MBA/ABA GOVERNMENT RELATIONS SUMMIT

April 23-25, 2018

Registration Form

MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

Registration Fee

The fee for Washington Conference delegates is $100. This includes the Minnesota Attendee Dinner on Tuesday, April 24, 2018 at Del Frisco.

Due to space limitations, we have been asked that spouses/guests not attend the working sessions. However, they are welcome to attend any receptions or dinners (the cost of these activities is $100 for spouses).

Housing

ABA Convention Services will be handling all hotel reservations (Washington Marriott Marquis) Please make sure to reserve your room through them when you fill out their registration form.

Airlines

Please plan to make your own travel arrangements. We suggest that you plan to arrive in Washington D.C. on the morning of Monday, April 23, or earlier, and depart late afternoon on Wednesday, April 25.

Full Name ______________________ Spouse ______________________

Bank ______________________ Phone ______________________

Bank Address ______________________

City/State/Zip ______________________

E-mail ______________________

Registration Fee:	_____	$ 100	(*Fee is for the Minnesota Dinner on Tuesday, April 24*)
Spouse/Guest Fees:	_____	$ 100	
Total Due:		$______	

PAYMENT OPTIONS: Check enclosed ☐ Bill bank ☐ Visa/MC ☐ Amex ☐

Account # ______________________ Exp. Date __________

Signature ______________________

Name on Card ______________________

Cancellation Policy: Participants wishing to cancel must inform MBA in writing prior to the event. Send cancellation notices to maryh@minnbankers.com. A cancellation fee of 25% of the program cost will be charged for withdrawing, or you may send a substitute. The full program fee will be charged for withdrawing after the event has taken place, or a no-show.

PLEASE RETURN FORM BY APRIL 9, 2018

MAIL WITH PAYMENT TO: Minnesota Bankers Association
Attention: Registrar
8050 Washington Avenue South
Eden Prairie, MN 55344-3821

FAX TO: 952-896-1100

EMAIL TO: maryh@minnbankers.com

Attach form to email

2018
Minnesota Bank Directory

Order your copy of the 2018 Minnesota Bankers Association Bank Directory! The MBA and M. Lee Smith Publishers have teamed up to provide you with a complete listing of banks, bank officers and directors, and bank financial highlights. Each bank entry provides you with information such as bank name, address, telephone and fax numbers, banks and much more.

In addition to the alphabetical listing of Minnesota banks by town, a special MBA section of the directory includes: the MBA Board of Directors, MBA staff, a listing of MBA committees and task forces, associate members by categories, and a district list containing cities, banks, and board representatives for all member banks. A separate section on non-bank competitors is included in the back of the directory.

Each CEO Bank and Associate Member will be mailed a complimentary copy of the directory. Additional copies of the directory are available for $60.00* to members of the Association and $120.00* to non-members. To order, complete the order form and mail or fax to the address listed below.

ORDER FORM

Contact Name:	Bank:	
Address:	City:	State:
Zip:	Phone:	
MBA Member? ☐ Yes ☐ No	Email:	

QTY	ITEM	MBA MEMBER	NON-MEMBER	TOTAL
	2018 Minnesota Bank Directory	$60.00 each	$120.00 each	$ 0.00
Add 6.875% MN sales tax			Check if located in MN ☐	$
Add Hennepin County (0.15%) & Transit (0.5%) sales taxes *			Check if located in Hennepin County ☐	$
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*Prices include shipping and handling.

Or print and mail completed form with payment to:
Minnesota Bankers Association
8050 Washington Ave S, Suite 150
Eden Prairie, MN 55344

If you have any questions, contact the MBA at 952-835-3900 or mba@minnbankers.com.

* We collect Hennepin County sales tax and Hennepin County Transit sales tax on transactions for Hennepin County residents only. If you are located outside Hennepin County, you may be responsible for local transit sales and use taxes.

COMPLIANCE

Compliance Audit 101

DATE & LOCATION

February 20, 2018
Minnesota Bankers Association
8050 Washington Avenue South
Eden Prairie, MN 55344
952-835-3900

PROGRAM OVERVIEW

This five-hour course will lead attendees through the steps to build an internal compliance audit program--how to get it started, what is needed, reports, process, etc.

TOPICS

A robust compliance management system encompasses the following components:

- Board and management oversight
- Compliance program
  - Policies and procedures
  - Training/education
  - Monitoring and corrective action measures
- Vendor management and third-party relationships
- Response to consumer complaints
- Compliance audit and quality control

The presenters will walk through the above areas at a high level and take a deeper dive into:

- Monitoring and corrective action measures
  - What should the monitoring look like at your institution? Taking a risk-based approach. We will provide tools and resources.
  - How to address and track corrective action measures
- Response to consumer complaints:
  - The compliance officer's role – responding and documentation
- Compliance audit and quality control
  - Structure
  - Frequency
  - Accountability
  - Best practices

WHO SHOULD PARTICIPATE

Compliance department personnel, anyone with audit functions, and all others interested in learning about compliance auditing will benefit from this seminar.

Make your attendance count towards your continuing professional education credits!
MBA will provide a certificate of attendance that you may submit to the appropriate advisory board.

THE PRESENTERS

Jolene Topinka, Jennifer Nelson and Amy Allen of RSM US LLP

Compliance Audit 101

CHECK IN	8:30 a.m.	
PROGRAM	9:00 a.m. – 3:00 p.m.	
REGISTRATION FEE (This fee includes materials, lunch and refreshments)	Member: $295.00 2nd person from same bank: $245.00	Qualified Non Member: $570.00
DATE & LOCATION	**February 20, 2018** Minnesota Bankers Association 8050 Washington Avenue South Eden Prairie, MN	
LODGING	*Lodging arrangements can be made at:* Hyatt Place, Eden Prairie, at (952) 944-9700 Dial "0" for the front desk (Ask for the Minnesota Bankers Association rate of $148.00, plus tax)	

CANCELLATION POLICY: MBA reserves the right to cancel programs due to insufficient enrollment, instructor illness, or other reasons. Participants wishing to cancel must inform MBA in writing prior to the event. Send cancellation notices to maryh@minnbankers.com. A cancellation fee of 25% of the program cost will be charged for withdrawing, or you may send a substitute. The full program fee will be charged for withdrawing after the event has taken place or a no-show.

NON-MEMBERS: Qualified non-members are encouraged to apply. Please call our office for further information.

SPECIAL NEEDS: If you have a disability that may affect your participation in the program, please send MBA a statement regarding any special needs at least two weeks prior to the program. We will contact you to discuss accommodations.

**** * Please let us know if you have any dietary issues at least two weeks prior to the program. * ****

PLEASE PRINT OR TYPE (One registrant per form - copy form if needed.)

Last Name ______________________ First Name ______________________ M.I. *(required)* ________

Bank ______________________ Phone ______________________

Bank Address ______________________ Fax ______________________

City/State/Zip ______________________ Mail Code/Station ______________________

E-mail ____

Please provide your email address in order to receive a confirmation.

PAYMENT OPTIONS: Check enclosed ☐ Bill bank ☐ Visa/MC ☐ Amount due $______________

Visa/MC # ______________________ Exp. Date ______________

Signature ____

Name on Card ____

PLEASE NOTE: For security purposes if you fax in your registration, please choose the "bill bank" option, OR call the MBA registrar at 952-857-2629 if you choose to use a credit card.

MAIL WITH PAYMENT TO:
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Attention: Registrar
8050 Washington Avenue South, Suite 150
Eden Prairie, MN 55344

FAX TO: 952-896-1100 **OR**
EMAIL TO: maryh@minnbankers.com
TO REGISTER ON LINE:
www.minnbankers.com

If you need further information or have any questions regarding this program, please call 866-835-3900.

LENDING

Credit Conference

DATE & LOCATION

February 21, 2018
Minnesota Bankers Association
8050 Washington Avenue South
Eden Prairie, MN 55344
952-835-3900

TOPICS

- **The Current State of Lending**
  Every bank has a loan approval along with a loan or credit committee. But as competition to provide consumer, commercial real estate and small business loans accelerates, community banks need to make sure that sound lending policies are in place. This session will provide commentary and analysis on national and regional trends.

- **DIY Credit Stress Test: Steps to Create and What the Numbers Tell You**
  Highlight stress testing, capital planning and proactive loan portfolio risk management before regulators and directors ask. Learn how to build a Do It Yourself (DIY) Credit Stress Test that analyzes current capital needs, and potential needs in stressed conditions. Identify important benchmarks while discussing what the numbers reveal. Bonus: You will learn to incorporate available peer information in assessments to gain a clear perspective of bank position.

- **Commercial Real Estate: lending to Developers & Contractors**
  Lending to CRE developers and contractors requires banks to manage this specialized credit risk. The framework for this kind of lending is different from traditional C & I lending while during the construction phase, there is no cash flow & the collateral value is a work in progress. This session offers insights and recommendations on how to manage & monitor the combined construction & credit risks.

- **Regression Analysis and Finding Lending Indicators**
  It can be difficult to quantify your qualitative reserve adjustments. In this session, we will evaluate actual portfolio experiences relative to external factors on various institution sizes, discuss common correlations and leading indicators, as well as methods to utilize the resulting analysis.

- **Growing Your Commercial Loans by Offering More Capital**
  Bank loans are often a business's primary source of capital, but some situations require more financing than your bank can or would lend. This session offers a practical toolkit for how you can help your borrowers bridge the gap by providing them a complete financing solution.

- **Understanding the Business Borrower**
  If banks can better understand the business borrower, they can better position their institution to win more business. Participants will take away a more granular understanding of business borrowers, to the point of being able to identify three or four areas for their own institution they can focus on for improvement. We will discuss trends in demand for business loans, cross sale opportunities with business customers, as well as the credit-seeking process for SMBs, the importance of human connection in the lending process and promoters and inhibitors to expanding the business lending process.

- **Best Practices in Enhancing Loan Growth through Partnerships**
  The secondary loan market has been extremely active over the last two years as banks throughout the United States manage varying levels of loan demand. This informative session will explore how banks are taking advantage of this specializes market and delve in the regulatory and underwriting issues that all banks need to be aware of.

WHO SHOULD PARTICIPATE

This conference is designed for chief credit officers, senior lenders, commercial loan officers, credit administration and Senior management personnel.

Credit Conference

CHECK IN	8:30 a.m.	
PROGRAM	9:00 a.m. – 4:00 p.m.	
REGISTRATION FEE (This fee includes materials, lunch and refreshments)	Member: $295.00 2nd person from same bank: $255.00	Qualified Non Member: $590.00
DATE & LOCATION	**February 21, 2018** Minnesota Bankers Association Eden Prairie, MN	
LODGING	*Lodging arrangements can be made at:* Hyatt Place, Eden Prairie, at (952) 944-9700 Dial "0" for the front desk (Ask for the Minnesota Bankers Association rate of $145.00, plus tax)	

CANCELLATION POLICY: MBA reserves the right to cancel programs due to insufficient enrollment, instructor illness, or other reasons. Participants wishing to cancel must inform MBA in writing prior to the event. Send cancellation notices to maryh@minnbankers.com. A cancellation fee of 25% of the program cost will be charged for withdrawing, or you may send a substitute. The full program fee will be charged for withdrawing after the event has taken place or a no-show.

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PLEASE PRINT OR TYPE (One registrant per form - copy form if needed.)

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Bank ______________________ Phone ______________________

Bank Address ______________________ Cell Phone ______________________

(Only used in case of emergency or last minute cancellation.)

City/State/Zip ______________________ Mail Code/Station ______________________

E-mail ______________________

Please provide your email address in order to receive a confirmation.

PAYMENT OPTIONS: Check enclosed ☐ Bill bank ☐ Visa/MC ☐ Amex ☐ Amount due $________

Account # ______________________ Exp. Date ____________

Signature ______________________

Name on Card ______________________

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FAX TO: 952-896-1100 **OR**
EMAIL TO: maryh@minnbankers.com
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2/17em

Joe Witt

Joseph Witt has served as the President/CEO of the Minnesota Bankers Association (MBA) since 2003. The MBA's motto is "The Champion For Minnesota Bankers," and Joe constantly works to ensure that the association is an effective advocate on behalf of the Minnesota banking industry. Witt is a licensed attorney who began working for the MBA's legal department in 1996. He is recognized as an industry expert and is a frequent lecturer and instructor at various banking and legal functions. Joe also represents the industry at the state legislature and is one of the MBA's primary contacts with the media.

Jeff Kortes

Jeff has more than 25 years experience in human resources. He has worked at companies that specialize in manufacturing, construction, textiles and software development. During his entire career he has worked to recruit, retain and develop employees, at companies including ConAgra Foods, industrial equipment supplier SPX, and automotive retailer Midas International, and more.

Jeff runs his own company, Human Asset Management LLC, which helps organizations to recruit, engage, develop and retain their best people. He is a member of the National Speakers Association (NSA) and a frequent speaker on the topic of retention, engagement, and recruitment to human resources departments, associations and business groups. Jeff is the author of Give Your Employees C.R.A.P...and 7 Other Secrets to Employee Retention and Welcome to Dodge…Tales from the Frontiers of Business. For more information visit http://www.jeffkortes.com and follow Jeff on Twitter @jeffkortes

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at the University of Wisconsin – Madison

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Minnesota Bankers Association

WOMEN'S LEADERSHIP CONFERENCE

April 12, 2018

8:00 AM - 3:15 PM
Marriott Minneapolis West
St. Louis Park, MN

This conference is designed to encourage, support, and inspire women to reach for success in their financial careers.

MBA™
Minnesota Bankers Association
The Champion for Minnesota Bankers

SCHEDULE OF EVENTS

8:00 - 8:30 **Check-in/Continental Breakfast**

8:30 - 10:30 ***Beyond Grit: Powerful Practices to Reach Your Potential***

Dr. Cindra Kamphoff

In Beyond Grit, Cindra Kamphoff reveals the ten practices that the world's best use to gain the high-performance edge. Kamphoff shares the strategies and tools she's taught executives, entrepreneurs, NFL ProBowl athletes, Olympians, college athletes, and championship teams.

Based on almost twenty years of research and consulting with the world's best, Kamphoff provides a practical, inspiring, and easy-to-use guide to radically accelerate your performance and improve your happiness.

10:30 - 10:45 **Break**

10:45 - 11:45 ***Speed Networking***

Join us for a fast-paced networking session to help you get to know other conference attendees and discuss current issues and trends in banking.

11:45 - 12:45 **Lunch**

12:45 - 1:45 ***State of the Industry***

Joe Witt, MBA President/CEO

Receive an update on the state of the financial industry – both locally and nationally, what issues are on the front burner and hear how the MBA is working for its members followed by Q & A.

1:45 - 2:00 **Break**

2:00 - 3:15 ***Give Your Employees C.R.A.P. - the Success Formula for Building Employee Loyalty***

Jeff Kortes, Human Asset Management LLC

Have you ever wondered why some bosses and organizations have people who are incredibly loyal to them and who will do anything for them while others have a revolving door of employee turnover? Those bosses and organizations that people want to follow, they give their employees lots of C.R.A.P.! (Caring, Respect, Appreciation and Praise). Jeff provides a "headhunter's" insight into why some employees are loyal and others work only to get a paycheck. Through real-life stories and interactive participation, Jeff has created a program which helps participants understand how to demonstrate Caring, Respect, Appreciation, and Praise, so that they can systematically build employee loyalty in their organization.

3:15 **Adjourn**

SPEAKERS

Cindra Kamphoff, Ph.D., CC-AASP

Cindra Kamphoff is a keynote speaker, trainer, entrepreneur, and professor who is a go-to high performance coach for leaders, professional athletes, executives and businesses around the nation.

Based on nearly 20 years of research and consulting, she speaks on how to gain a high performance edge while providing practical strategies that work. Kamphoff is also the founder and director at the Center for Sport & Performance Psychology and professor at Minnesota State University, Mankato.

She has a Ph.D. in sport and performance psychology from the University of North Carolina at Greensboro and a BA in Psychology from the University of Northern Iowa.

Cindra and her husband have two boys and live in Minnesota. You can read more about Cindra's speaking programs and coaching at www.cindrakamphoff.com.

A Practical Overview of Common Legal Issues Faced by New Bankers

Video and Supporting Materials

An essential training tool to have in your bank!

MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

This video was specifically developed by the MBA for its member banks. It includes supporting materials. The following items are discussed:

The instructor will take you through legal issues surrounding the entire lending process: from making initial contact with a prospect, to documenting the loan (or more precisely working with credit and navigating issues surrounding using form documents or attorney-prepared documents), to managing the lending relationship while the loan is performing, to handling troubled credits in a pre-foreclosure situation, to working with attorneys when the matter goes into liquidation.

This program is meant to ease the minds of new bankers, and banks with new bankers who are afraid that the new banker might say something to a prospect that could give rise to liability, or do something during the loan documentation process that might create regulatory problems for the bank, or do/say something to a troubled borrower that could compromise the bank for a workout perspective.

Duration: 3 hours

Fee: $99.00 + applicable taxes

Presenters: Matthew Bialick, Hellmuth & Johnson

Note: Once your order has been processed you will receive an email with instructions and a link to access the video and supporting materials. You can either download the video to your computer or bank's network or watch the video online through a web browser. To assure delivery of the email, please add cindym@minnbankers.com to your Safe Sender List.

ORDER FORM

Please email me the Ag Loan Documentation streaming video link and supporting materials for the fee of $99.00.

Video and supporting materials =	$ 99.00
Add 6.875% Minnesota sales tax =	$ 6.80
Add Hennepin County tax .15% (.0015) if located in Hennepin County	$____
Add transit tax .5% (.005) if located in Anoka, Dakota, Hennepin, Ramsey or Washington Counties	$____
Total Due:	$____

Name ______________________

Bank ______________________

Address ______________________

____

Phone ______________________

Email ______________________
(required)

☐ Check (made payable to Minnesota Bankers Association)

☐ Invoice me

☐ VISA ☐ MasterCard ☐ Amex

Card No.______________________ Exp. ________

Print Cardholder Name ______________________

Signature ______________________

To order, complete this form and return it to the Minnesota Bankers Association at the address or fax number below.
Questions? Please contact Kim Philipson at 952-857-2632 or kimp@minnbankers.com.

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Bert Ely's FARM CREDIT WATCH®

Shedding Light on the Farm Credit System, America's Least Known GSE

To contact Bert Ely: Email: bert@ely-co.com; Fax: 703-836-1403; Phone: 703-836-4101
Mail: P.O. Box 320700, Alexandria, Virginia 22320

November 2017 (No. 236)

FCS deposit-taking more extensive than previously reported

In the July FCW I wrote that the FCS effectively accepts deposits, through the cash management services some FCS associations offer to their member/borrowers. As the article described, many associations in two of the four FCS districts — those funded by CoBank and AgriBank — accept deposits on behalf of the bank that funds them. That bank then invests the deposited funds in interest-bearing bonds it issues. These bonds can then be redeemed at any time by the FCS member/borrower, apparently without penalty. **These bonds are not insured by any federal agency.** In particular, unlike the debt the FCS issues through the Federal Farm Credit Banks Funding Corporation, these bonds are **not** insured by the Farm Credit System Insurance Corporation, which does insure the timely payment of principal and interest on debt issued by the Funding Corporation. On Sept. 30, 2017, $2.35 billion of these bonds were outstanding, down slightly from $2.43 billion on December 31, 2016.

Additionally, based on September 30, 2017, FCS call-report data, 37 of the 69 FCS associations had a total of $1.15 billion in liabilities called "Other Interest-Bearing Debt," or OI-BD. As discussed below, all or a substantial portion of the OI-BD effectively are readily withdrawable deposits held by these associations. There also were another $241 million of deposit-like liabilities on the books of CoBank and AgriBank, for a total of $3.74 billion of deposits and deposit-like liabilities owed by FCS institutions on September 30, 2017. **Of course, Congress has not authorized FCS institutions to accept deposits.** This spreadsheet lists all FCS institutions reporting OI-BD as of September 30, 2017. This debt is usually identified on the quarterly financial reports the associations publish on their websites as "Funds Held," "Advanced Conditional Payments" (ACP), "Future Payment Funds," or similar terms suggesting that they are deposits.

The $1.15 billion of OI-BD held by the 37 associations on September 30 are especially troubling as they fund a portion of the associations' activities, yet they are **uninsured** liabilities of the association. As the linked spreadsheet shows in **column I**, some associations rely on OI-BD for a not-insignificant portion of their funding — as high as 11.59 percent at Colusa-Glenn. The fourth-largest association, Farm Credit West, held $421 million of OI-BD as of September 30, 2017, accounting for 5.32 percent of its funding. The public disclosure of that uninsured status is sketchy, at best. AgTexas, which had $9.3 million of such deposits as of September 30, 2017, states on its website that "Voluntary ACP Accounts are not federally insured but are backed by the financial strength of AgTexas Farm Credit Services." An FDIC-insured bank could never say that. Numerous associations actually state that they accept deposits when describing on their websites the cash management services they offer; in other cases, the association's eagerness to accept deposits can reasonably be inferred from the website. **Column J** in the linked spreadsheet flags the associations where deposit-taking can at least be inferred.

Another Texas FCS association, the financially troubled Lone Star Ag Credit (see next article), states on its webpage that it offers "an interest-bearing 'Funds-Held Account' for its borrowers." The Farm Credit Administration (FCA) has removed from its website all Lone Star call reports since the end of 2015 so we have no idea how much it is holding in uninsured OI-BD at this time; in 2015, the amounts were quite small — just a few thousand dollars. However, it is amazing that the FCA permits Lone Star, much less any FCS association, to hold for their members any uninsured “Funds Held” or other euphemisms for deposits. The House Financial Services and Senate Banking Committees should investigate the deposit-taking as well as the other banking activities many FCS institutions engage in, none of which are subject to the Bank Secrecy Act, as I reported in the September 2017 FCW.

Lone Star Ag Credit’s problems and lack of FCS transparency

As I first reported in the August 2017 FCW, Lone Star Ag Credit was hit by an accounting scandal that caused the association to withdraw its financial statements back to the first quarter of 2016, stating that they “should no longer be relied upon.” As noted in the previous article, the FCA removed from its website Lone Star call reports since the end of 2015. Earlier this month, Lone Star published a short update on its website stating that it could not issue “Third Quarter 2017 financial statements on a timely basis.” It also reported that an investigation into the “appraisal and accounting irregularities” that triggered the withdrawal of its financial statements should be completed “during the fourth quarter of 2017,” after which it “will work diligently to prepare all prior reports once the investigation is complete.” Beyond that, Lone Star has disclosed nothing about its serious accounting problems, including management changes that may have been triggered by those problems. In fact, unlike other FCS associations, Lone Star does not even provide a list of its senior management on its website.

This lack of disclosure at Lone Star is just one more example of the lack of transparency within the FCS and at the FCA. For example, even though bank regulators routinely publish detailed enforcement orders against banks and thrifts, the FCA refuses to do so; all it will do is disclose quarterly how many enforcement orders, or “written agreements,” were outstanding at the end of the most recent calendar quarter. Amazingly, according to the Third Quarter 2017 Information Statement issued by the Federal Farm Credit Banks Funding Corporation, no FCA written agreements were outstanding at September 30, 2017, or at the prior quarter-end either, which strongly implies that the FCA has not taken any enforcement actions against Lone Star despite its acknowledged appraisal and accounting irregularities. This is an astonishing example of a lack of transparency by the FCA as to what steps have been or are being taken to ensure there is not a repeat of such irregularities.

FCA not concerned FCS banks are called 'commercial banks'

Last month I reported on a press release issued by the online magazine *Global Finance* in which the four FCS banks (CoBank, AgriBank, AgFirst, and Farm Credit Bank of Texas) were ranked among the world’s safest **commercial** banks. The FCS banks, of course, are not commercial banks, or even banks as that term is generally understood. Instead, they are merely funding intermediaries between the Funding Corporation, which issues FCS debt, and the FCS associations, which do the bulk of the FCS’s lending. As an aside, the four FCS banks could easily be folded into the Funding Corporation and agriculture and rural America would not notice the difference, but that is a topic for another day.

As I noted in the FCW, CoBank seems quite proud of being ranked among the world safest commercial banks, having issued a news release to that effect, even though it knows it is not a commercial bank. When I expressed my concern to the FCA about CoBank promoting its *Global Finance* ranking, the FCA replied that because the CoBank news release states that it is “a leading cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States,” that statement “is not misleading and does not warrant FCA concern.” Apparently the FCA is **not** concerned that CoBank does not mind being called a commercial bank.

Bert Ely's FARM CREDIT WATCH®

Shedding Light on the Farm Credit System, America's Least Known GSE

To contact Bert Ely: Email: bert@ely-co.com; Fax: 703-836-1403; Phone: 703-836-4101
Mail: P.O. Box 320700, Alexandria, Virginia 22320

December 2017 (No. 237)

FCS's $10 billion Treasury line-of-credit extended another year

The FCS's $10 billion line-of-credit with the Treasury Department's Federal Financing Bank, or FFB, was recently renewed for another year, to expire on September 30, 2018. This line-of-credit was first created in September 2013 and has been renewed annually since then. No public notice was given announcing this renewal — its extension for another year could only be detected by noting the change in expiration date, as reported in a footnote to the FCS's quarterly financial statements. Technically, the parties to this line-of-credit are the FFB and the Farm Credit System Insurance Corporation (FCSIC), the FCS entity which insures the Systemwide Debt Securities issued by the Federal Farm Credit Banks Funding Corporation. Those securities fund the bulk of the FCS's balance sheet; at September 30, 2017, outstanding FSCIC-insured securities totaled $257.9 billion. Unlike a line-of-credit issued by a commercial bank, the FCSIC pays nothing for it — it is a freebie provided by taxpayers. The FCSIC "may use these funds to provide assistance to the [FCS] Banks in exigent market circumstances that threaten the Banks' ability to pay maturing debt obligations." Any funds the FCSIC borrowed from the FFB to help provide assistance to the four FCS banks would be in addition to the FCSIC tapping its own assets to provide assistance; those assets totaled $4.75 billion at September 30, 2017.

Creation of the line-of-credit was driven by the 2008 financial crisis. At least publicly none of FCS banks experienced any difficulty in paying maturing debt obligations. However, and this is an important however, the spread between Treasury debt and FCS debt widened in the aftermath of the crisis. As a report prepared by The Brookings Institution stated in justifying the creation of the line-of-credit, "the unprecedented instability in the global financial markets reduced FCS' ability to issue debt **with preferred maturities and structures"** [emphasis supplied]. Consequently, the FCS increased its reliance on short-term funding because it was unhappy with the higher rate spread on longer-term FCS debt. However, as the Brookings report also noted, "the disruption of the long-term funding market for FCS obligations was temporary and the consequences **were not serious"** [emphasis supplied].

Most troubling about this line-of-credit is that Congress never authorized it. Few members of Congress may have even known anything about its creation when it occurred. To get the details as to how this line-of-credit came to be created, in May 2014 — three and one-half years ago — I filed a Freedom of Information Act (FOIA) request with the Treasury Department requesting copies of all documents related to its creation. To date, Treasury has refused to provide any documents to me. Shortly, I will refile my FOIA request — hopefully this time it will be more productive.

Glen Smith sworn in as the newest FCA director

On December 14, Glen R. Smith of Atlantic, Iowa, was sworn in as a director of the Farm Credit Administration (FCA), following the Senate's Dec. 5 confirmation of his appointment as the third member of the FCA's board of directors. He joins FCA chairman and CEO, Dallas Tonsager, and FCA board member Jeffrey Hall. Smith's term will expire on May 21, 2022. He also will serve, along with Tonsager and Hall, as a director of the FCSIC discussed above. Smith is president and co-owner of Smith Land Service, a company specializing in farm management, land appraisal, and farmland brokerage services. He also owns a family farm operation that encompasses about 2,000 acres of primarily corn and soybeans in western Iowa. Unlike some former FCA directors, Smith has no known prior affiliations with any FCS institution. Iowa is one of four states served by FCS of America, headquartered in Omaha; it is the largest FCS association, with assets of $27 billion.

It is unclear at this time what type of regulator Smith will be — a tough, independent regulator characteristic of all bank regulators or a cheerleader for the FCS, an all-to-common characteristic of FCA board members. In his written statement at his confirmation hearing, he said he "understood the important role of the [FCA] in setting policy, examining and regulating our nation's largest agricultural lender, the [FCS]." He did express concern "about the current agricultural outlook, particularly with younger, risk-prone producers." That is an excellent concern to have at this time, given the recent downturn in land values and crop prices, but the regulatory crunch will come in dealing with troubled FCS associations and recurring instances where FCS institutions have violated the FCS's lending authorities. In this regard, Smith should support publication of all FCA enforcement orders.

Farm Credit Financial Partners — an unknown FCS entity

A little-known element of the FCS is Farm Credit Financial Partners, Inc., or FPI, an FCS service corporation providing back-office services to four FCS associations, the principal owners of FPI (FPI website). The four associations are Northwest FCS, Farm Credit West, AgCountry FCS, and Farm Country East, respectively the fourth, fifth, eighth, and ninth largest FCS associations. At its November 9 meeting, the FCA board of directors authorized Farm Credit of Illinois, the 10th largest association, to join FPI's ownership group. The smaller Fresno-Madera Farm Credit and Yankee Farm Credit also belong to FPI.

As is evident from its website, FPI provides a broad range of financial products and services to its member associations. One can reasonably ask when other associations will join FPI to take advantage of the economies of scale FPI most likely offers to its owners. A more interesting question: What does FPI's growth signal in terms of further consolidation within the FCS, not only among associations but eventually between the two levels within the FCS — banks and associations? Put another way, as consolidation among the associations continues, what is the relevance of the FCS's two-tier structure — the four funding banks and the 69 associations? FCA chairman Tonsager has essentially posed this question in several speeches since becoming chairman, suggesting rather strongly that FCS institutions need to begin considering the future structure of the FCS. It will be interesting to see if director Smith joins in that debate and the role FPI could play in advancing that debate.

Holiday Greetings and Best Wishes for the New Year

FCW wishes its readers as well as their families, friends, associates, and customers the very best for the Holiday Season and the New Year. I join with America's taxpaying bankers in urging the FCA, and especially its newest board member, to become more aggressive in 2018 in cracking down on FCS lending violations as well as other FCS violations of the Farm Credit Act. Hopefully, too, Congress will impose appropriate constraints on FCS lending when it enacts the next Farm Bill.

UPCOMING 2018 EDUCATIONAL PROGRAMS

Executive Development Institute for Community Bankers®

April 15-18, 2018 I Denver, CO

EDI is a 19-month program for up-and-coming C-level executives whose work efforts influence the future direction of their banks. Participants receive personalized leadership development training by an executive coach, and are paired with a CEO mentor who is a C-level officer from a comparable community bank outside of their trade areas. Bank-specific deliverables include a detailed ERM assessment, talent management analysis and profit improvement strategies.

Space is limited; early enrollment is advised.

Community Bank Investments School

NEW PROGRAM! May 20-24, 2018 I University of Colorado Denver I Denver, CO

This school is designed to provide financial managers with an independent critique of opportunities and risks in better managing a community bank investment portfolio. Each participant is encouraged to bring information regarding his/her own institution's investment portfolio. As part of a group, instructors will assist in analyzing different securities' risk and return characteristics and the potential impact on a portfolio's overall risk/return profile.

Space is limited; early enrollment is advised.

Community Bankers Summit 2018

Biennial Seminar I July 23-25, 2018 I During the 68th Annual School Session I Boulder, CO

This seminar will focus on what senior officers of community banks should know in key areas given uncertainties in the economic and regulatory environment. More information to be announced.

Workshop on Community Bank Investments & Asset Liability Management

Annual Workshop I September 12-14, 2018 I Caesars Palace I Las Vegas, NV

This workshop's focus is the current economic environment, as it presents significant challenges to community bankers in managing their security portfolios and overall interest rate risk in the balance sheet. Speakers provide a critique of current investment alternatives, examine the trade-offs between different funding alternatives, offer contingency funding planning analysis and describe strategies to enhance portfolio performance and aggregate interest rate risk management practices.

68th Annual School Session

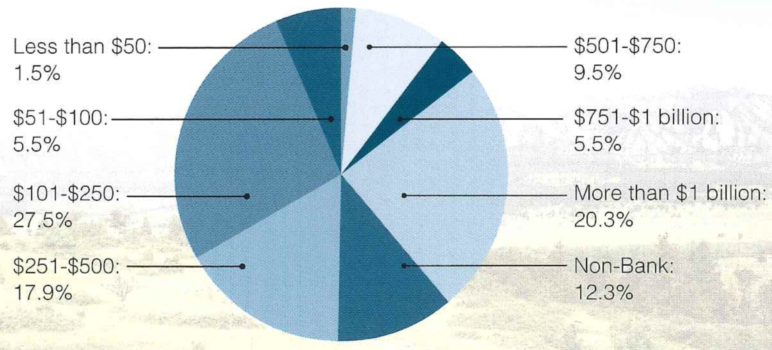
July 15-27, 2018
University of Colorado I Boulder, CO

Since 1950, the Graduate School of Banking at Colorado has set the standard in offering the financial-services industry a comprehensive banking education. GSBC delivers an innovative and timely 25-month bank-training curriculum, which has helped thousands of bankers, regulatory professionals and financial services representatives become leaders nationwide. Space is limited; early enrollment is advised.

Scholarships are available through GSBC's co-sponsoring state banker associations.

Bank Asset Size Range Represented at 2017 School Session

Dollars in millions:



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America's *Premier* Community Banking School

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Source: The Role in US Households' Saving for Retirement, 2016. Investment Company Institute. January 2017.

GSB 2018

BANK TECHNOLOGY MANAGEMENT SCHOOL

April 8 - 13, 2018

Fluno Center for Executive Education
Madison, Wisconsin

Linking Technology Management to Bank Performance

This state-of-the-art program will broaden your understanding of the business of banking and information technology management, improve your productivity and value at your bank and help you to establish a network of professional colleagues with whom to collaborate and exchange ideas for years to come.

Two-Part Curriculum

The school has been divided into two core areas of study—the business of banking and strategic technology management.

Business of Banking Curriculum

Information technology professionals must understand their business context to make effective IT decisions for the bank. Core areas in this section include:

- Introduction to the Business of Banking
- Bank Performance Analysis
- Regulatory Environment
- The Future of Community Banking

Technology Management Curriculum

Through a mix of lecture, discussion and hands-on computer labs that include penetration and vulnerability testing, you'll learn about:

- IT Project Management
- Vendor Management
- Leveraging Infrastructure and Emerging Technologies to Create Your Bank's Advantage
- IT Disaster Recovery & Incident Response Planning
- Information Technology Risk Assessment
- IT Exam Preparation Hotspots
- Hacking

Fees & Accommodations

Your tuition includes includes a non-refundable $350 registration fee, all instructional materials, five nights single occupancy lodging, full breakfast and lunch each day, a welcome reception, access to IT and banking industry experts and all computer lab sessions and software. Tuition for the 2018 session of the Bank Technology Management School is $3,150.

Register at gsb.org

Due to the hands-on nature of the school, enrollment is limited in this program, which has sold out in the past, so early registration is encouraged.

ALSO IN **2018**

Bank Technology Security School

October 21 - 26, 2018
Visit gsb.org for details on this popular program!

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Graduate School of Banking
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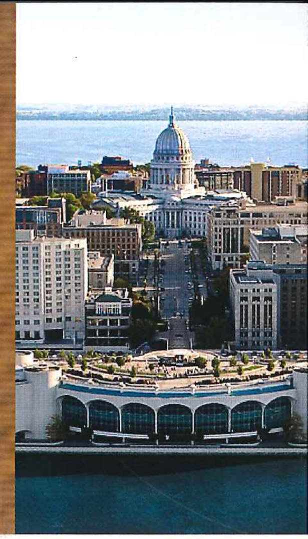
GSB 2018

HUMAN RESOURCE MANAGEMENT SCHOOL



April 15-20, 2018

Fluno Center for Executive Education
Madison, WI

The human resource function directly impacts your bank's productivity and bottom-line results. That's why HR professionals in financial services require a working knowledge of the business of banking as well as strong talent management and leadership skills. This one-week school is designed specifically for HR professionals in banking and ties together banking and human resource leadership.

Expand your knowledge of banking, human resource management and employee performance at this respected school—and establish a network of colleagues to exchange ideas for years to come. Topics are timely and relevant, and may include:

- Introduction to the Business of Banking
- Bank Profitability Analysis
- Asset/Liability Management
- Bank Regulatory & Competitive Environment
- Strategic Planning & Marketing
- HR's Role in Building and Maintaining Company Culture
- Role of Benefits in Total Rewards
- Building a Talent Management Succession Plan
- Employment Law Update
- Developing a Base Compensation Plan
- Best Practices: Building and Refining Incentive Compensation Plans

All-Inclusive Tuition Adds Value

Human Resource Management School tuition includes a non refundable $350 registration fee and all instructional materials. Tuition also includes a full breakfast and lunch daily, welcome reception, closing night dinner and five nights single occupancy lodging. 2018 tuition is $3,150.

Scholarships available!
See gsb.org for details

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