MBA™
Minnesota Bankers Association
The Champion for Minnesota Bankers

NEWS

May/June 2018

2018 MBA ANNUAL SUMMIT

Madden's on Gull Lake, Brainerd
June 10-12, 2018

FOCUS ON AG

Financial Sector Vulnerability in the Current Farm Sector Downturn

The Trouble with Tariffs

The Legal Implications of the Q1 Rally in Commodities Prices

The Power of Personalization - Strategies for Driving Card Usage

Official Publication of the Minnesota Bankers Association

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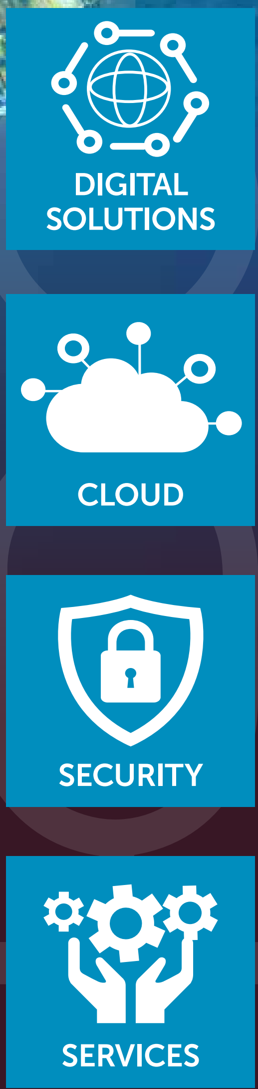

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Minnesota Bankers Association
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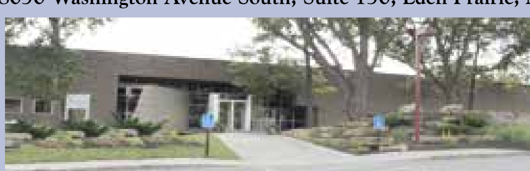

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MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

MBA News
Published six times a year, *MBA News* is the official publication of the MBA. Articles focus exclusively on the commercial banking community in Minnesota.

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Questions or comments about *MBA News* should be directed to the Managing Editor, Eric Hauth.

www.minnbankers.com

Reflections on a Great Year

Mark White
President
First National Bank, Coleraine

I'm writing this column in mid-April, while much of the state is still covered in a thick blanket of snow. As I look out the window, it seems like a *very* long time since my first Chair's Message was published last July. As I approach the end of my term as the MBA Board Chair, however, I realize just how fast this year has gone by. And what a year it's been!

This, my final Chair's Column, presents the perfect opportunity to express my deep gratitude for the honor of serving as the MBA Chair. It also causes me to reflect on the many opportunities we have across our great industry.

I titled my first column, "Step through the Door with Me," inspired by my friend and predecessor, Gail Mikolich, who spoke about the importance of responding when opportunity knocks. In my first Chair's Message, I invited my fellow bankers to get more involved in the work of the MBA and walk through that door of opportunity with me. Not surprisingly, so many of you have been doing just that.

I also wrote about the pendulum shift needed at the policy level to reduce the cumbersome and sometimes harmful regulatory burdens that hinder our ability to meet our customers' needs. At the federal level, through the collective advocacy efforts of Minnesota bankers and our colleagues across the country, that shift is taking place.

First, I am happy to report that the United States Senate has finally passed a regulatory reform bill. After years of doing nothing, the Senate passed a bill that would provide meaningful relief, allowing community banks to better serve their customers and communities. The portfolio mortgage lending provision, HMDA disclosure relief provision, the community bank capital simplification provision and the reciprocal deposits provision will all help a lot. Now we just need the House to pass the bill and it can go to the President's desk for his signature. The industry certainly stepped up and made its voice heard on this reform bill.

The bankers have been talking to the regulatory agencies, too, urging them to make positive changes. The new Acting Director of the CFPB has significantly changed the direction of that agency. While the CFPB will do its job of enforcing consumer protection laws when consumers are harmed, the agency will not attempt to expand the law or prosecute banks for technical violations that do not result in real harm. How refreshing! And the banking agencies have said that they will review the CRA regulations, making sure they reflect the way banking is done today, rather than how it was done thirty years ago.

At the state level, our association continues to be represented by a first-rate lobbying team, which represents and defends our interests every single day of the legislative session. That work, however, is only as good as the willingness of each of us – Minnesota bankers – to engage in the political process and advocate for our interests. With a large and dedicated MBA Government Relations Council providing leadership and a significant presence by bankers for our Bank Day at the Capitol, we are making a difference.

A great example of this state level work is the MBA's lead advocacy on the Property Assessed Clean Energy (PACE) legislation. The MBA heard that an energy financing company out of California was looking to move into the Minnesota market, so we researched how residential PACE has been working in other states. There were concerns that the PACE lien takes priority status over an existing mortgage and that there are no consumer protections in place. Through the work of the MBA lobbyists and our member bankers, legislation that protects the interests of banks and our customers is now moving through the legislative process. We are hopeful that the legislation will pass this session.

In addition to our advocacy work, the MBA continues to develop new programs to support the industry. The MBA Board members noted that there will be a significant number of retirements within the senior leadership positions at their banks. As a result, the MBA launched a new, world-class training program to cultivate that next generation of bank leaders – the MBA Leadership Development Academy. In mid-May, the first class of 20 aspiring banks leaders, including Kate Tarbuck from our bank, will graduate from this program. At the 2018 MBA Summit in Brainerd, we will welcome our second class of impressive bankers who will go through the Leadership Academy.

Finally, a door of opportunity so many of you have walked through is the Minnesota Bankers Community Impact Week. Launched in 2016, this initiative has grown from an impressive 64 banks and 190 branches in its first year to 98 banks and 177 branches in 2017. We hope to see another similar jump in 2018! This high level of commitment to Community Impact Week once again demonstrates the strong commitment by our banks to helping our communities grow and prosper.

The banking industry faces new and ongoing challenges but, as Gail Mikolich reminded us, behind each of these challenges is a door of opportunity. Thank you again for the opportunity to serve as your MBA Board Chair and for all the support you continue to give to our association. ■

Mark White, MBA Chair

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- CDD Workshop: Preparing for the New Regulation (FREE)
- Cybersecurity Seminar
- Deposit Account Takeovers
- Effectively Stabilizing Agricultural Assets in a Workout Context
- Farmer Lender Mediation Process
- Loan Portfolio Risk Management Video Series
- Managing Appraisal & Evaluation Requirements
- Navigating Bankruptcy
- New Developments & Claims Under the ADA (FREE)
- Recent Developments in Electronic Payments
- Search Warrants, Subpoenas
- TRID Training

Free Senior Fraud Videos:

- Financial Professionals: On the Frontlines in the Fight Against Senior Financial Exploitation
- Fraud Watch: Current Fraud Trends and Behaviors
- Protection of Vulnerable Adults: Knowing What, When and How to Report Suspected Exploitation

Graduate School of Banking at the University of Wisconsin – Madison

Online Seminars

Look for upcoming GSB classes at www.gsb.org or www.minnbankers.com.

MINNESOTA BANKERS ASSOCIATION
COMMUNITY IMPACT WEEK

Let's Make an Even Bigger Impact!
Minnesota Bankers Community Impact Week
September 17-21, 2018

Join with banks across the state for the MBA's 3rd Annual Minnesota Bankers Community Impact Week. Launched in 2016, this initiative has grown from an impressive 64 banks and 190 branches in its first year to 98 banks and 177 branches in 2017.

Let's continue this trend in 2018 on behalf of communities across our great state.

> *"This was a great idea! It not only encouraged us to continue to volunteer throughout our community, but it got our staff to work together as well."*

To register your bank and for details on the campaign, go to
www.minnbankers.com/communityimpact.
Questions? Contact Chris Harrison at chrish@minnbankers.com.

LEAD LIKE A SUPERHERO!

2018 MBA ANNUAL SUMMIT

June 10-12, 2018 | Madden's on Gull Lake, Brainerd

The 2018 MBA Annual Summit offers an unparalleled opportunity for Minnesota bankers to network, learn, collaborate and become even better leaders for the challenges and opportunities ahead.

Effective leadership is the only sure-fire strategy to succeed in today's changing banking environment. That's why we've built the 2018 Annual Summit to inspire and educate current and emerging bank leaders. Taking place at one of Minnesota's premier resorts, this year's Annual Summit promises a truly memorable experience in a relaxed setting.

Who should attend?

- Emerging bank leaders with a desire to grow and network
- Any mid-career bankers looking for practical insights to apply at their banks
- Current bank Presidents/CEOs and "C" suite leaders
- Ag bankers looking to learn from nationally recognized ag banking experts

The 2018 Annual Summit features:

- Fun networking opportunities
- Practical leadership insights for today's bank challenges
- Bonus sessions for ag bankers
- MBA's annual golf event OR exciting non-golf activities
- A family-friendly location and option to register family members for individual meals and events

REGISTER NOW AND LEARN TO LEAD LIKE A SUPERHERO!

REGISTRATION

Cost:

$550*/$625	first attendee
$495*/$570	additional attendee from same bank/company
$495*/$570	MBA Past Officer

Individual meal plan options available for guests/families

*Early Bird Rate - Ends on April 30, 2018

Please go online for more information and to register.
www.minnbankers.com/annualsummit

LODGING

Madden's on Gull Lake
11266 Pine Beach Peninsula
Brainerd, MN 56401
800-233-2934

Madden's on Gull Lake is truly a classic Minnesota luxury resort experience. Resort amenities include 63 holes of golf, tennis, complete marina with three sand beaches, hiking and biking trails, four swimming pools, spa, childrens activity program, six restaurants and luxury accommodations.

To reserve your room please go to:
www.maddens.com/minnesota-bankers-association/

Room block deadline is May 10, 2018

AGENDA

Sunday, June 10

3:00 - 5:30 p.m — Check-in with MBA

5:30 - 9:00 p.m. — Kickoff Reception, Dinner and Banker Bingo - Sponsored by **TCF**

Emcee - *Jerrid Sebesta*

2018 ANNUAL SUMMIT SUPERHERO KICKOFF

Join us as we kick off the 2018 Annual Summit getting to know other "superheroes" outside at the pavilion with a reception, lawn games, and a dinner buffet. After dinner put your superhero skills to the test with "Banker Bingo." Win prizes and enjoy the competition!

Monday, June 11

7:00 – 9:00 a.m. — Check-in with MBA

6:30 – 9:00 a.m. — Breakfast

7:00 – 8:00 a.m. — *BONUS AG LENDING SESSION*
THE AG ECONOMY AND THE FUTURE OF AG LENDING – *Michael Boehlje*
Sponsored by **Federal Home Loan Bank of Des Moines**

8:00 – 8:30 a.m. — MBA Business Meeting

Today's Emcee is *Jerrid Sebesta*

8:30 - 9:30 a.m. — SEPTEMBER 11, 2001 – THE WHITE HOUSE: A CRISIS LEADERSHIP PRESENTATION -
Lieutenant Colonel (Ret.) Robert J. Darling
Sponsored by **MBIS**

9:30 – 9:45 a.m. — Networking Break

9:45 – 11:00 a.m. — LEADERSHIP IS PERSONAL!
Kevin D. Wright
Sponsored by **Bell Bank**

11:00 a.m. — Lunch

11:30 a.m. — Box Lunch at The Classic for Golfers

12:30 p.m. — Annual MBA Golf Tournament

12:00 – 4:30 p.m. — Brainerd Zip Line Tour

12:30 – 2:30 p.m. — Destiny Boat Cruise on Gull Lake

6:30 - 8:30 p.m. — Reception, Golf Awards, Dinner & Entertainment
Sponsored by **Wells Fargo**

Enjoy entertainment from guitarist Reed Nelson, a casual dinner and find out who the winners are from the Annual MBA Golf Tournament.

Tuesday, June 12

Today's Emcee is *Ian Leonard*

6:30 – 9:00 AM — Breakfast

7:00 – 8:30 AM — *AG LENDING SESSION*
WHAT'S DRIVING AGRICULTURE IN THE YEAR AHEAD? – *Mike Pearson*
Sponsored by **Gislason & Hunter**

9:00 – 10:45 AM — LEADING ON THE EDGE: BANKING IN A NEW GENERATION OF ENGAGEMENT
Jackson Hataway & MBA Leadership Development Academy Panel
Sponsored by **The Baker Group**

10:45 – 11:00 AM — Break

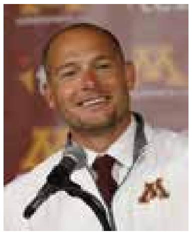
11:00 – 1:45 PM — MINNESOTA BANKER CELEBRATION & KEYNOTE LUNCHEON
Sponsored by **Federal Home Loan Bank of Des Moines**

Emcee – *Ian Leonard*

Keynote – BUILDING A WINNING CULTURE – *P.J. Fleck*
Sponsored by **CliftonLarsonAllen**

1:45 PM — Adjourn

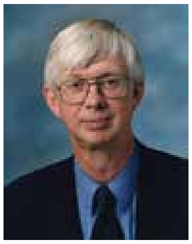
SPEAKERS/ SESSIONS



P.J. FLECK

Building a Winning Culture

P.J. Fleck is not only the Head Football Coach at the University of Minnesota, but he is also a motivational speaker. Listen to Coach Fleck talk about his H.Y.P.R.R. culture and how it not only applies to 17-20 year old young men, but also to Fortune 500 businesses. From 1-11 to 13-1 at Western Michigan University and a trip to the Cotton Bowl, Coach Fleck has proven how to build an elite culture through people, purpose, and process.

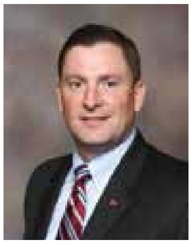


MICHAEL BOEHLJE

The Ag Economy and the Future of Ag Lending

Given the current downturn in agriculture, ag lenders are facing additional challenges.

This presentation will focus on the current business climate facing the farm sector and ag lenders and the financial vulnerabilities that their farm and agribusiness customers are facing. The discussion will then identify how lenders can work with their customers to respond to those vulnerabilities as well as the adjustments that farmers and agribusinesses should consider to increase their financial resiliency.



LIEUTENANT COLONEL ROBERT DARLING

September 11, 2001 – The White House: A Crisis Leadership Presentation

In October 2000, Lt. Col. Darling was working for the White House Military Office, Airlift Operations Department. It was in this position that, during the attack of September 11, 2001, he supported the President, Vice President and National Security Advisor in the underground President's Emergency Operations Center (PEOC) and witnessed unprecedented leadership and decision making at the highest levels of our government.

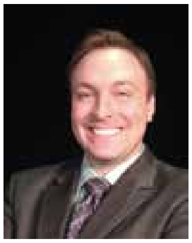
With the lessons of 9/11, this session is designed to help organizational leaders effectively navigate times of crisis and disruption, taking the necessary steps to safeguard their teams, organizations and communities.

KEVIN WRIGHT

Leadership is Personal!

You deserve a cape today! Ever have a boss who could leap tall challenges in a single bound? One talk with her and your challenges disappeared. He's that leader who could see into the future, and always knew the right next move. Ever wonder how she got her super power and how you too could join the Super Leaders Network?

Uncover your own secret powers to leading and engaging people in this session with Kevin. He'll share tools he's developed in leading in three Fortune 100s over two decades. Buckle up! Moving at the speed of light in this high-powered and engaging presentation, you'll uncover the five keys to IGNITE, DEVELOP and RETAIN your talent and customers like Professor X. Come get your cape!



MIKE PEARSON

What's Driving Agriculture in the Year Ahead?

Get ready to laugh and learn with Mike Pearson as he takes you on an entertaining journey – a look ahead at the outlook for the farm markets – and global trends impacting these markets.

Farmer, banker, and former Market to Market host Mike Pearson keeps viewers informed as host of the "Weekly Journal of Rural America." Mike also co-hosts a daily podcast called Ag News Daily.

JERRID SEBESTA

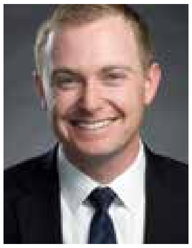
Emcee

Jerrid Sebesta is an award winning TV meteorologist with a career spanning over 12 years. He changed careers in 2014 and is now a keynote speaker, podcast host and financial coach for Taatjes Financial Group in Willmar, MN. He spends much of his time traveling around the region challenging audiences with their own life, purpose, and personal finances.

IAN LEONARD

Emcee

Ian has been Chief Meteorologist at FOX 9 since 2006. His science is the great outdoors and his passion is forecasting the weather. He calls his work at FOX 9 a dream job because of the four incredibly diverse and always entertaining seasons of the Upper Midwest.



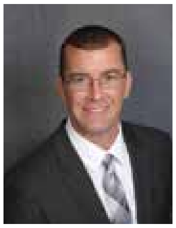
JACKSON HATAWAY

Leading on the Edge: Banking in a New Generation of Engagement

Banks are increasingly finding themselves on the edge of the next wave of consumer engagement. Banks that want to differentiate themselves and drive sustainable growth in a financial landscape that is evolving both in terms of complexity and competition have to innovate in order to stay ahead of the curve. And they have to do so without adding overwhelming stress to capital, people or infrastructure. That means you can't "just innovate;" you need targeted innovation driven around areas of strategic value where you can think big, act small and fail forward – and make your people better than ever.

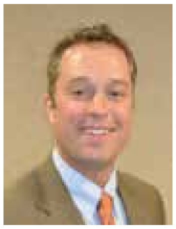
MBA LEADERSHIP DEVELOPMENT ACADEMY PANEL

Amy Amundson
Vice President
Reliance Bank
Faribault
Class 1 President



Brett Freese
Assistant Vice President
First National Bank of Milaca

Representatives from Class One



Anthony Hanson
Executive Vice President Commercial Lending
Citizens Bank and Trust
Hutchinson

Kristin Hannon
AVP Retail Sales Manager
Minnwest Bank
St. Cloud

Let's be the superheroes these campers need!

CAMP CONFIDENCE

Located in the beautiful Brainerd Lakes Area of Minnesota, Camp Confidence is an outdoor center for persons with developmental and cognitive disabilities along with the deaf and hard of hearing communities. The program at Camp Confidence is aimed at promoting self-confidence and self-esteem, and the necessary skills to become full, contributing members of society. The campers achieve this through active "hands-on" activities and participation in a variety of outdoor experiences.

The Camp has requested a few items that they are in need of:

- **Wax Paper**
- **Rit Dye**
- **Zebco 33 Fishing Reels**

Let's make an impact and help Camp Confidence. **Bring along your items when you check in with the MBA!** We will present Camp Confidence with the items at the Celebration Luncheon.

ACTIVITIES

Annual MBA Golf Tournament

The Classic at Madden's

Cost: $115

This is your chance to enjoy the outdoors, network with bankers, and experience #54 of America's Top 100 Greatest Public Courses.

Destiny Boat Cruise

Sponsored by Ascensus

Cost: $40

Escape for a two-hour cruise on the majestic waters of Gull Lake aboard Destiny Cruises' magnificent new luxury yacht, the North Star. Enjoy snacks and drinks on an outdoor observation deck and take in the terrific Brainerd Lakes landscape and play a few games while you're at it! Fun for all ages.

Brainerd Zipline Tour

Sponsored by United Bankers' Bank

Cost: $85

From the peak of Mount Ski Gull, enjoy zip lines, a 50-foot free fall experience and a suspension bridge while reveling in the breathtaking views of Brainerd and the surrounding lakes. Each session is 2½ hours long and transportation is provided.

There are three different sessions – 10 people per session – session start time depends on number of registrations, first come, first served. Limited to 30.

(Must be 10 years or older, 70 – 250 lbs only)

2018 Annual Summit Registration
Madden's on Gull Lake, Brainerd | June 10-12, 2018

Registration Form		
Member Name:	Bank/Company Name:	
Address:		
City:	State:	Zip:
Email:		

Main Attendee Registration

	ITEM	PRICE	TOTAL
☐	First Attendee registration *(Summit registration includes: Sunday night banker bingo, reception/dinner, Monday breakfast, lunch, reception/dinner, Tuesday breakfast, celebration luncheon, education sessions & materials, and break refreshments. Golf, Zip Line and the Destiny Cruise are additional fees. All attendees will need an event badge to attend meals/education sessions/events.)*	$550*/$625 * Early Bird Rate – Ends on April 30, 2018	$
☐	Addt'l attendee from same bank/company/MBA Past Officer	$495*/$570	
	I plan to attend the morning Ag sessions	FREE w/Full Summit registration	n/a
	Zip Line Tour	$85	
	Destiny Boat Cruise	$40	
	MBA Golf Tournament	$115	

Spouse/Guest Registration

Spouse/Guest Name:

	Full Summit Registration *(Summit registration includes: Sunday night banker bingo, reception/dinner, Monday breakfast, lunch, reception/dinner, Tuesday breakfast, celebration luncheon, education sessions & materials, and break refreshments. Golf, Zip Line and the Destiny Cruise are additional fees. All attendees will need an event badge to attend meals/education sessions/events.)*	$495*/$625 * Early Bird Rate – Ends on April 30, 2018	
	Individual Meal Pricing Option	Make selections below	n/a
	I plan to attend the morning Ag sessions	FREE w/Full Summit registration	n/a
	Zip Line Tour	$85	
	Destiny Boat Cruise	$40	
	MBA Golf Tournament	$115	

Child Registration

Child Name:		Under 6 years old? Yes ☐ No ☐	
	Zip Line Tour (Ages 10+, participant must be between 70-250 lbs.)	$85	
	Destiny Boat Cruise	$40	
	Individual Meal Pricing Option	Make selections below	n/a

Child Registration

Child Name:		Under 6 years old? Yes ☐ No ☐	
	Zip Line Tour (Ages 10+, participant must be between 70-250 lbs.)	$85	
	Destiny Boat Cruise	$40	
	Individual Meal Pricing Option	Make selections below	n/a

Individual Meal/Event Pricing Only (children, other guests not registered for full Summit. Children <=5 yrs FREE)

Meal/Event	Children (6-12)	# attending	Ages 13+	# attending	TOTAL
Sunday Bingo/Reception/Dinner	$45/person		$75/person		
Breakfast (includes both Mon/Tues)	$15/person		$20/person		
Monday Lunch	$25/person		$25/person		
Monday Reception/Dinner	$25/person		$45/person		
Tuesday Celebration Luncheon	$25/person		$50/person		
Grand Total					$ 0.00

2018 Annual Summit Registration
Madden's on Gull Lake, Brainerd | June 10-12, 2018

MBA Golf Tournament Information	
I (we) will be playing with the following Conference Attendees in the MBA Golf Tournament: *(Naming your golf foursome does not mean the other golfers are registered for the tournament. To ensure golfing with your chosen foursome, each golfer must individually register for golf.)*	
Name:	Bank/Company Name:
Name:	Bank/Company Name:
Name:	Bank/Company Name:

Bankers have first priority in golf registration. Limit two golfers per associate member company and two per sponsor company. Foursomes will be assigned as received and confirmation will be sent prior to the tournament to all paid players. Registrants without a foursome listed will be assigned to other foursome groups as they are received. You must be registered for the 2018 Annual Summit in order to play in the tournament.

Golf cancellations received before Friday, June 1, 2018, are subject to a cancellation fee of 25% of the golf tournament fee per person or you may send a substitute. All golf cancellations received on or after Friday, June 1, 2018, will be subject to a cancellation fee of 75% of the golf tournament fee per person or you may send a substitute. The full golf tournament fee will be charged for withdrawing after the event or a no-show.

Special Accommodations	
Please indicate name & food restrictions below (i.e. vegetarian, allergies, gluten free, etc.)	
Name:	
Name:	

If you require special accommodations to fully participate, attach a written description of your needs.

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.

To complete your registration, download and complete this form. Click the **Attach form to email** button at the top of the form. We'll process your registration and forward an invoice to you.

Or print and mail completed form with payment to:
Minnesota Bankers Association
Attn: Registrar
8050 Washington Avenue South, Ste 150
Eden Prairie, MN 55344

If you have any questions, contact our registrar, Mary Henriksen at 952-835-3900 or at maryh@minnbankers.com

Or fax form to: 952-896-1100

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United Bankers' Bank

Wipfli

Financial Vulnerability in the Current Farm Sector Downturn

By Michael Boehlje and Michael Langemeier

The U.S. farming sector exhibited very strong financial performance during the 2007-2013 period in terms of cash flow, high incomes, debt servicing, and equity accumulation. However, that strong performance was accompanied by increased volatility, creating more operational and financial risk for farm businesses. While debt levels are still modest sector wide, industry averages do not accurately reflect the true financial risk for individual farms. Larger scale farmers who have been growing rapidly have leverage positions more than double the industry average.

Strong global food demand and robust biofuels markets strained global production capacity during the 2007-13 period. The prospects of tight global supplies spurred farm incomes. Historically low interest rates quickly capitalized these high incomes into record high farmland values. But as with past booms, the prospects of a permanent "golden era" in agriculture quickly faded. High farm incomes stimulated world production and the promise of global demand growth weakened, resulting in low agricultural commodity prices and incomes. These leaner farm incomes were unable to support the record-high farmland prices. As a result, many farmers that thought they were seizing the emerging opportunities may be left empty-handed as market and financial conditions have changed.

To obtain some insight into the vulnerability of farms to changing financial conditions, the financial performance of various Midwest grain farms with different size, ownership status, and capital structures were examined under the shocks of volatile crop prices, yields, fertilizer prices, farmland values, and cash rents (Boehlje and Li, 2013). Farms with modest size (550 acres) and with a large proportion rented are very vulnerable irrespective of their leverage positions, unless they have non-farm income to buffer their cash flows. These same modest size farms are more financially resilient if they own a higher proportion of their land. Large farms with modest leverage (25 percent debt-to-asset ratio) that combine rental and ownership of the land they operate have relatively strong financial performance and limited vulnerability to price, cost, yield, and asset value shocks. In addition, these farms can increase their leverage from 25 to 50 percent with only modest deterioration in their financial performance and a slight increase in their vulnerability.

Even though the entire agriculture sector is still in an overall strong position with a relatively low debt-to-asset ratio, this study shows that some common farm types are vulnerable to price, cost, yield, and asset value shocks and that cash flow and debt servicing problems are going to continue and may grow depending on the direction of the agriculture economy.

What insights does this "stress test" analysis provide concerning the current downturn? How might future events evolve that would create a 1970s-80s boom-bust cycle?

Similar to past farm booms, low interest rates fostered the capitalization of rising farm incomes into record high farmland values. Accommodative monetary policy by the Federal Reserve pushed nominal interest rates to historic lows. The surge in U.S. farmland prices outpaced the rise in cash rents. In fact, the average price-to-cash rent multiple, which is similar to a price-to-earnings ratio on a stock, surged to a record high of over 30 in various Corn Belt states (Langemeier et al., 2016)

The potential for higher interest rates presents a future risk. Higher interest rates have two distinct impacts on U.S. agriculture. Rising interest rates place upward pressure on the dollar, which trims U.S. agricultural exports, farm profits, and farmland prices. In addition, higher interest rates also boost the capitalization rate, which weighs further on farmland prices. The impacts are compounded on highly leveraged farms as higher interest rates reduce incomes and raise debt service burdens, as the 1920s and 1980s demonstrated.

For several reasons, the price environment that existed from 2007 to 2013 led to a re-alignment of the balance sheet, relatively more non-current assets in relation to current assets. First, farmers aggressively purchased land, in many cases using sizable cash down payments. Second, farmers that expanded rapidly were aggressive bidders in the land rental market. High and fixed cash rental arrangements have become increasingly common and some of these agreements are for multiple years (2-3 years) at relatively high fixed rates, resulting in larger drains on cash to pay the rent and thus less cash and lower current assets and working capital positions. Furthermore, during the "good times," strong cash positions and concerns about high tax liabilities resulted in significant purchases of depreciable machinery and equipment, which moved assets from the current to non-current category without restructuring the liabilities, thus creating an additional imbalance in the balance sheet.

This increasingly misaligned balance sheet increases the vulnerability of the business to income shocks from lower prices, lower yields, or high costs. Such shocks decrease margins and cash flows as well as inventory positions, and could quickly result in a working capital position below lender underwriting standards. A typical lender response in this situation is to suggest liquidating inventories and using the proceeds to reduce operating debt. However, for farmers who file Schedule F tax returns, this could trigger significant tax obligations since the tax basis on raised grain and livestock for Schedule F tax-filers is zero. Thus, the full proceeds at sale are taxed as ordinary income which reduces the liquidity position even further.

An alternative lender response is to rebalance the debt and move some of the current obligations to non-current using the appreciated value of farmland as security. During the boom, lenders often resisted increasing loan to value ratios on farmland purchases but may now feel pressure to monetize capital gains in land by extending additional credit based on the higher land values. Higher land values and the resulting increased equity positions would appear to provide adequate security and secondary repayment capacity to support the larger debt load, but what if land values continue to decline? Clearly, the debt per dollar of revenue generated from the land will be higher if prices decline, compounded further if lower incomes are permanent rather than temporary. The business is now very vulnerable to further income shocks or asset value deterioration. Permanently lower incomes and/or higher interest rates will not only create debt servicing problems, but also reduce the discounted cash flow and thus weaken the demand for farmland.

Our analysis suggests that the statement that farmers are resilient to price, cost, yield, and asset value shocks because of the current low use of debt in the industry does not adequately recognize the financial vulnerability of many typical family farms to those shocks. Not nearly as many farm families are expected to have to sell assets or face bankruptcy compared to the 1980s bust, but many will still face cash flow and debt servicing problems and will need to make major adjustments to reduce their costs or extend their loan repayment terms. ■

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Editor's Note: We are proud to feature Professor Boehlje as one of our two speakers for the agriculture banking breakout session at the 2018 MBA Annual Summit in Brainerd. Register now for the summit to hear more from Professor Boehlje and other world class presenters. ***www.minnbankers.com/annualsummit.***

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A more detailed version of this paper was published in the June 2017 issue of Purdue Agricultural Economics Report.

Agricultural Complexities in Foreclosure and Collection

By Andrew Steil

Foreclosing real and personal property is never something that banks look forward to. While banks certainly don't want to go through foreclosure, knowing the timeline and quirks associated with foreclosing real and personal property, along with other collection rights, allows banks to make better, informed decisions. In addition to the normal statutory requirements for foreclosing and collections against borrowers, there are unique rules for agricultural borrowers. This article provides an overview of unique rules and timelines for agricultural foreclosure and collection.

Farmer/Lender Mediation

Minnesota is unique in that before a bank can enforce a debt against "agricultural property" – both real and personal property – the bank must go through the statutory farmer/lender mediation process. Farmer/lender mediation is a program that came out of the 1980's farm crisis and, although it was scheduled to sunset long ago, continues today. Like other topics discussed in this article, we could spend an entire article on farmer/lender mediation. In a nutshell, the bank must serve the borrower with notice of its rights to elect farmer/lender mediation before taking action to collect against agricultural property. After service of the notice, the borrower has 14 days to elect mediation.

Mediation Waiver/Borrower Elects Not to Mediate

If the borrower fails to elect mediation during the 14-day period after service, the bank will receive notice of such failure, and the bank is free to move forward with legal action to collect its agricultural property collateral. The bank should be aware, however, that it has only 60 days to initiate the collection action against the agricultural property collateral and, if it fails to start the action within those 60 days, it must permit the borrower another opportunity to elect mediation by serving another notice of the borrower's right to elect mediation. This 60-day period cannot be extended so even if the bank is negotiating with the borrower, unless it wants to risk giving the borrower another opportunity to delay the collection action through mediation, it must start the enforcement action.

Mediation Election

If the borrower elects mediation, the bank will receive notice and the bank is stayed from taking any collection during mediation, which lasts a minimum of 90 days. This stay means that the bank cannot start or take any action to collect its agricultural property collateral during the mediation. There are exceptions. For instance, if collateral is disappearing or at risk (which could include, because of low milk prices, the inability to care for or feed a dairy herd) banks need to continue diligently monitoring its collateral during the mediation process. There is no requirement that banks enter into any type of agreement during mediation; the only requirement is to participate in good faith. After 90 days, if mediation is unsuccessful, the bank can request that mediation be terminated and move forward with its collection against its agricultural property collateral.

Foreclosure of Agricultural Real Property

In Minnesota there are two types of real property mortgage foreclosure: Foreclosure by Advertisement and Foreclosure by Action. While some foreclosure laws, such as the notice and six-week publication requirements are the same for both, there are significant differences as well and even more differences for agricultural foreclosures. Foreclosure by advertisement is the non-judicial (no court action) foreclosure, and is a far quicker and cheaper method of foreclosing real property. Downside of foreclosure by advertisement is that a bank, subject to a few exceptions, cannot generally retain its deficiency rights against the mortgagor. Foreclosure by action (court foreclosure) generally permits the bank to obtain a deficiency judgment against the borrower if the real property collateral is insufficient to pay the debt in full. The downside of a foreclosure by action, however, is that it is normally both slower and more expensive.

Both foreclosure by action and advertisement have separate notices that must be given when foreclosing agricultural real property. The borrower has the right to require the bank to split its bid at the sheriff's sale if there are separate farm tracts, which can create unintended complexity in the bidding and redemption process. For purposes of evaluating the bank's decision to move forward with a foreclosure, the borrower's redemption period, right of first refusal, and deficiency rights relating to agricultural property, discussed next, are critically important.

Agricultural Foreclosure Exceptions

While the redemption period for most foreclosures is six months, if the real property is agricultural, the redemption period is normally 12 months. The redemption period means that the mortgagor has 12 months to pay the amount paid at the sheriff's sale to keep its land. During the redemption period, the bank has no possessory rights in the land meaning that often the farmer can continue farming while not paying the bank.

Even after the 12-month redemption period expires, and the bank is the owner and has the right to possession, the agricultural borrower still retains rights in the property. Specifically, when re-selling agricultural property after foreclosure, the bank must give the last owner (likely the farmer mortgagor) a right to match the purchase price of any third-party buyer before it can sell agricultural property. Known as a right of first refusal, the farmer mortgagor has to be provided notice of the sale and then has 65 days to match the price. This right of first refusal, however, can be waived by the agricultural borrower.

Unlike non-agricultural credits, it is more difficult for banks to obtain deficiency judgments following an agricultural foreclosure. Specifically, while a deficiency judgment is normally set by the difference between the amount owing and the amount bid at a sheriff's sale, for agricultural property it is not based upon bid. Instead, judgment is based upon the appraised value of the property. And the bank must bring a separate action in which the agricultural borrower has a right to a jury trial to help determine the value of the real property. The additional requirement to obtain an appraisal and litigate, including having a jury trial, to determine a deficiency following an agricultural property will significantly increase the expense.

Deficiency Judgments

Monetary judgments against borrowers in Minnesota are normally valid for 10 years and can be renewed, but this differs for agricultural borrowers. Judgments against agricultural borrowers stemming from agricultural loans are valid for only three years and cannot be renewed. Furthermore, while a bank can normally collect a judgment against a borrower's non-exempt property, there are further restrictions against agricultural borrowers. Specifically, banks cannot seize or otherwise attach real or personal property that the agricultural borrower acquires after the judgment is entered. This law is likely in place to permit the farmer to continue operating and get back on their feet after an economic downturn. But this law also makes it nearly impossible to collect since the bank will be limited to pre-judgment assets and cannot even garnish money that is acquired post judgment.

Conclusion

Agricultural foreclosure and collection actions are unique and require the bank to consider various contingencies. In many circumstances it is advantageous for the bank to consider a short-term forbearance or workout agreement with its borrower to deal with future farmer/lender mediation requirements and to expedite any later foreclosure of the real or personal property collateral. ■

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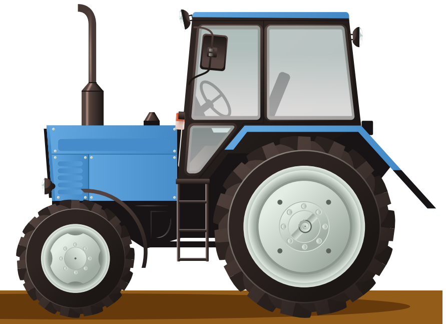
The Importance of the Seller in a Transaction Involving Buyers in the Ordinary Course of Business

By Seth Harrington



Imagine the following scenario: a financial institution finances a farmer's purchase of equipment and obtains a perfected security interest in the equipment. Five years later, the farmer misses payments and defaults. The financial institution forecloses on the equipment with the goal of selling the equipment to pay down the farmer's debt. During the course of the foreclosure, the farmer reveals that he sold the equipment at an auction two years ago and doesn't know where it is. The financial institution reaches out to the auctioneer and is able to locate the equipment. But does the financial institution still have a perfected security interest? Did the sale to a presumably innocent buyer cancel out the financial institution's security interest? To answer these questions, the financial institution must understand the Uniform Commercial Code's (UCC)[1] rules related to a buyer in the ordinary course of business (BIOC).

A BIOC is awarded special privileges under the UCC. One of these privileges allows a BIOC to take free from a security interest, even one that is perfected, if certain criteria are met. First, the BIOC must, of course, qualify as a BIOC. To qualify as a BIOC a buyer of goods must: 1) act in good faith; 2) have no knowledge that the sale violates the rights of others; 3) buy in the ordinary course of business; and 4) buy from a seller who is not a pawnbroker but is in the business of selling goods of that kind. Minn. Stat. § 336.1-201(9). Second, if those four criteria are satisfied, a BIOC will have priority over a prior perfected security interest only if the seller is the party that created the security interest. Minn. Stat. § 336.9-320(a).

The UCC rules related to BIOCs force a financial institution to understand not only who the buyer is in a BIOC transaction, but also who the seller is. For buyers, a financial institution must understand whether the buyer acted in good faith and whether the sale violated the rights of others. For sellers, a financial institution must understand the seller's ordinary course of business, the types of goods sold by the seller, and whether the seller created the financial institution's security interest. Failure to understand and analyze the seller in a BIOC transaction can cause issues for financial institutions.

As an example, let's revisit the situation posed in the opening paragraph. Let's assume, after a review of the facts, the financial institution determined that the buyer acted honestly, in good faith, and without knowledge that the financial institution's rights were violated when the equipment was purchased. Further, the financial institution also determined that the auctioneer was considered the seller under applicable law, that the auction was held consistent with similar auctions, and that the auctioneer regularly sold equipment at auctions. Given that information, the financial institution determined that the buyer met the legal definition of a BIOC. However, if that ends the financial institution's inquiry as to whether the buyer took free of the perfected security interest, the financial institution has made a serious mistake. This is because the financial institution failed to recognize that the auctioneer did not create the financial institution's security interest; instead it was the farmer who contracted with the auctioneer to sell the equipment. In this situation, a BIOC – though perhaps meeting the definitional criteria – would not take free from the financial institution's security interest. A financial institution, however, would only realize that if it did a proper analysis of both the buyer *and* the seller.

All in all, when faced with a BIOC situation, don't neglect the seller. In fact, it is the seller's circumstances that financial institutions should pay the most attention to when analyzing a BIOC situation. This is because a lack of good faith or actual knowledge – the criteria tied to the buyer – can be difficult to prove. The nature of a seller's business or whether the seller created the security interest, however, are much easier to prove and work just as efficiently for financial institutions looking to avoid losing a perfected security interest to a BIOC. ■

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[1] All citations are to Minnesota's version of the UCC unless otherwise noted.

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The Trouble with Tariffs

By Mike Pearson

Unless you've been living under a rock for the past several weeks, you've probably heard the words "trade" and "tariff" so often you're beginning to tune them out. That would be a big mistake. President Trump and his administration have made the decision to utilize "import taxes" as the primary tool to punish what they perceive to be bad actions on the part of our trading partners. Many farm groups and rural politicians have begun a full court press to highlight how agricultural products would be hardest hit in a trade war, and they've been countered at full volume by domestic manufacturing advocates and so-called "fair trade" supporters who believe the U.S. has been cheated over the years. As of mid-April, the commodity markets have apparently shrugged off the talk of proposed tariffs, but farmers, agricultural lenders, and citizens of rural America still need to pay attention. Tariffs and other trade barriers will have impacts on American agriculture.

Past disruptions in global grain trade have shown that production impacts can last far longer than the trade dispute itself. To that end, I want to examine the state of global agriculture today, and what past trade disruptions could tell us about the future.

Setting aside the partisan back and forth, the imposition of tariffs on products coming into the U.S. will inevitably cause trade partners to put tariffs on U.S. products, and one of the few industries with large quantities of net exports is agriculture. So, it's fair to assume the American farmer will feel a hit in the pocketbook if the current trade spats metastasize in to full on trade wars. The hit on commodity prices will most likely happen quickly after an announcement, given the prevalence of large scale speculative investors in the markets, but, futures prices will stabilize as cooler heads recognize that grain production and consumption is global. In effect, should China cancel soybean orders from the U.S., it will then move to fill those orders from another place, likely Brazil, and those cancelled U.S. beans will most likely find a home replacing those Brazilian beans in a different market. This argument has been made repeatedly during these tariff discussions, and history certainly shows it to be true.

However, that's not the end of the story. Trade disruptions are disruptive for a reason. They change the way buyers and sellers regard one another, and they change the incentives in place for farmers on the ground. By far the largest disruption in international agricultural trade, at least in recent history, was President Jimmy Carter's embargo on grain exports to the Soviet Union in 1980. An embargo would be a much larger disruption than the reciprocal tariffs currently being threatened, so it's fair to assume that the impacts of the embargo were larger than potential impacts from tariffs would be, but there is value in observing how the global agricultural market reacted to the disruption.

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The Legal Implications of the Q1 Rally in Commodities Prices

By Matthew Bialick

After a rather bleak last few years in the agricultural marketplace due largely to depressed commodities prices, there appears to finally be a ray of hope with a moderate rally in commodities prices occurring in Q1 of 2018. While corn is still nowhere near the $7.00+ per bushel we were seeing in years past, it's finally testing $4.00 per bushel again, after hovering in the mid to low $3s for quite some time. This is a positive development, but what's somewhat less clear are the legal implications of this rally from a lending and workout perspective. This article seeks to answer that question and provide a general overview of how an increase in commodities prices should affect all phases of the lending and workout process.

Implications from a Lending/Documentation Perspective

In some ways, the most delicate time for banks from a lending perspective is when economic conditions are starting to improve after a long period of being depressed. There's an increased desire to lend during these times, yet there's still uncertainty and volatility in the marketplace because a rally can very easily turn out to be a mere blip on the radar.

While an increase in commodities prices may reasonably affect banks' appetites for lending, it should not materially affect the borrower creditworthiness analysis and it should not signal that banks can be more lenient from a documentation perspective. During challenging economic times, even when faced with signs of improving conditions, it's critical that banks focus on strong fundamentals in the lending process that include: (1) ensuring that the loan documents precisely match what was approved by credit; (2) verifying that all listed items of equipment collateral are accounted for and in good order; (3) ensuring that there are no unexpected prior liens or encumbrances on the collateral; (4) ensuring that all security documents are properly recorded in all applicable states and counties; and (5) ensuring that all required documents are provided and executed.

While proper documentation is always important, it takes on heightened importance in volatile times, because the likelihood that a new credit will ultimately go to workout/liquidation is markedly higher. The defects and latent issues that never come to light in good times can become big problems once things have gone south.

Implications While the Loan is Performing

After the loans have been made, but prior to default, banks should ensure that they receive all required financial documentation and they should monitor whether increasing commodities prices are resulting in an improving bottom line. If commodities prices are increasing, but net income is still staying constant or even decreasing, that may be a red flag that could signal the need for workout interventions in the near future.

Additionally, for performing loans that are still relatively high risk, banks should determine whether they want to utilize increased optimism created by rising commodities prices to help facilitate an external refinance. Even if the loan is not considered high risk, times of economic improvement are good times for banks to assess whether they are interested in reducing their concentration in a particular lending segment.

Finally, while loans are still performing, banks must assess whether they want to advance additional amounts necessary for non-recurring expenses (e.g., new equipment purchase) or whether they want to partner with other lending sources to help borrowers fund these expenditures when they arise. Higher commodities prices and positive trends make it easier for banks to successfully locate other finance partners. This helps banks avoid increasing their exposure with respect to their borrowers by being forced to advance additional funds simply to ensure the continued integrity of the farming operation.

Commodities Prices continued on page 28

The Power of Personalization – Strategies for Driving Card Usage

By Alyssa Arredondo

The widespread adoption of financial cards — paired with the power of personalization — creates tremendous opportunity for card marketers. In developed economies, more than 70 percent of people over the age of 18 carry at least one financial card. In fact, most of those consumers carry an average of 3.7 credit and debit cards. Recent studies show that as the focus shifts to winning over new generations — Boomers, Gen X, Gen Y (Millennials) and Gen Z — personalization becomes even more important. Card marketers with a millennial-centric strategy will find that the key to brand engagement will be to deliver customization and personalized brand experiences.

According to Accenture's Personalization Pulse Check — a survey among more than 1,500 consumers aged 18 to 60 across the United States and United Kingdom — consumers are finding that truly personalized experiences are limited across even the biggest and best-known brands because most companies are still in the experimental stages of development. The study shows that most consumer marketers, including financial brands, are in stages one or two of a five-stage personalization maturity model. This means marketers practice personalization minimally or deploy it selectively based on gut-level decisions or simple intuition. A key conclusion of the study is that many consumer brands are missing a tremendous opportunity, especially with Gen Y and Z consumers, to attract new customers and build loyal relationships by using personalization to their benefit.

The power of personalization remains largely untapped in financial card programs. Even before the emergence of Gen Y and Z consumers, leading card marketers understood the value of personalized products. As early as the late 1980s and early 1990s, many saw credit and debit cards as the most tangible elements of their brands and the most frequent point of interaction for their customers. They liked the concept of integrating their brand (logo) with each customer's personal brand (images or other design elements) on financial cards. The idea was that blending the bank's identity with the consumer's identity on the card could go a long way towards differentiating their products, attracting new cardholders and deepening loyalty.

Research also shows that printing personalized images and text has a proven impact on the bottom line: activation rates improve by 54 percent and transaction volumes grow 15-20 percent. Adding personalization also increases customer retention, which in turn drives revenue. For example, a 5 percent increase in customer retention produces more than a 25 percent increase in profit.

While it's difficult to determine precisely which personalization tactic drives those

Card Usage continued on page 34

Counsel's Corner

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Is a personal representative able to have access to old statements?

Yes. The personal representative is charged with taking inventory, appraisement, and possession of the decedent's estate. Granting access to the decedent's statements provides the personal representative with a clear picture of the property in the estate.

What are the branching laws in small communities?

Branch offices, called detached facilities by statute, may be established in different scenarios, such as:

- In the municipality where the main office is located;
- Within 5,000 feet of the main office;
- In a municipality where there is not a main office of another bank; or
- In a municipality having a population of at least 10,000 people.
  - A detached facility may be established in a community of less than 10,000 people if all the banks having a main office in that community consent, in writing, to the new detached facility.

Can a bank refuse to cash on-us checks for non-customers?

The bank likely has a contractual obligation to cash on-us checks for both customers and non-customers. The issue is when the bank's customer writes a check, the bank has a contractual obligation to honor that check (assuming there are funds available and that the check is properly payable). As such, when the bank refuses to cash on-us checks, the bank is breaching its agreement with its customer.

Are there any legal issues in including a jury waiver clause in the bank's notes and mortgages?

While there is not a strict statutory prohibition on including jury waivers, there are still some legal concerns. The Military Lending Act makes it unlawful for any creditor to extend credit to a covered borrower with respect to which the borrower is "required to waive the covered borrower's right to legal recourse." It is a reasonable interpretation to conclude that a jury trial is a "legal recourse." Additionally, including a jury trial waiver in the body of a long multi-page document carries some risk because a court could find this practice to be deceptive or unfair. Therefore, it is a good practice to include jury waivers on a separate document so that the borrower cannot claim to be surprised by its inclusion.

Can a bank escheat property to the state even if the property has not yet been presumed abandoned under Minnesota Statute § 345.32?

According to the Minnesota Department of Commerce, Unclaimed Property Department, it was determined that in certain instances, banks may escheat property that has not met the definition of abandoned. For example, if an account owner has been deceased for years but the account statements have not been returned undeliverable to the bank, the account is not technically abandoned according to Minn. Stat. § 345.32. If this account has sat untouched for years, the bank likely knows it will never be claimed by a successor and can then be escheated to the state. ■

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

Ask the Agent

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I have an officer who has been transitioning into retirement for the past few years. He does some work for the board that amounts to a few hours a month and may also come into the office occasionally. Will this impact his life insurance through the MBA?

The MBA Life Plan requires that employees work a minimum of 20 hours per week to be considered eligible. If a covered employee terminates employment, retires or reduces their hours below the plan's 20 hour per week minimum they must be provided a written Eighteen Month Continuation election notice within 14 days to comply with Minnesota Statute 61A.091 (www.revisor.mn.gov/statutes/?id=61A.092). The former covered employee must respond to the election notice within 60 days of the later of the date their coverage under the MBA Group Plan expires or from the date they receive the election notice. If the former employee fails to respond to the election notice within the required 60 days or fails to make their monthly premium payment to their former employee by the end of each month, their coverage will be terminated. Please inform MBA in a timely manner of an employee's terminations and/or election to continue their coverage. ■

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

Compliance Query

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Will the U.S. Department of Housing and Urban Development (HUD) ever update the Servicemembers Civil Relief Act Notice Disclosure that expired on December 31, 2017?

Yes, HUD has recently updated the form, which is available online at: **https://www.hud.gov/program_offices/administration/hudclips/forms/hud9** (search for "92070"). While HUD's form page may continue to show a form revision date of 12/2014, HUD has updated the form. The updated form changes the expiration and revision dates and corrects the statutory citation for the Servicemembers Civil Relief Act (SCRA) in the initial paragraph. HUD has not made any substantive changes to the form's content or the underlying protections.

Will the Financial Crimes Enforcement Network (FinCEN) issue frequently asked questions (FAQs) for the new beneficial ownership rule before the May 11, 2018 mandatory compliance date?

Yes, on April 3, FinCEN published FIN-2018-G001 that provides updated FAQs regarding Customer Due Diligence (CDD) requirements related to the new beneficial ownership rule for financial institutions. FIN-2018-G001 includes thirty-seven questions and answers ranging from the beneficial ownership threshold to customer risk profiles.

Questions 1 and 2 address the beneficial ownership threshold and when it may be appropriate for banks to impose a lower threshold or other more stringent beneficial ownership requirements as compared to the rule requirements. The answers to both questions clarify that imposing stricter policies and procedures are completely up to the bank's discretion.

Question 3 addresses the issue of complex legal entity ownership including an illustrated example.

Questions 4-6 address the collection and verification of legal entity customer beneficial owner and representative information. These answers reiterate that such information is subject to normal Customer Identification Program (CIP) requirements except for permitting photocopies of government-issued identification and a business or residential address for the physical address requirements for beneficial owners.

Question 7 clarifies that banks must identify and verify existing customers that are beneficial owners of a legal entity at the time of opening a new account.

Question 8 reiterates that banks need not use FinCEN's certification form (available online at **https://www.fincen.gov/resources/filing-information**) but must implement procedures that comply with the substantive requirements of the rule.

Questions 9-13 address the rule relating to multiple, existing, and renewing accounts. These answers clarify that banks must obtain and retain beneficial ownership information for all new accounts, which includes account renewals, but does not include subaccounts created for accounting/operational purposes. Renewals of accounts, such as automatically renewing certificates of deposit (CDs) do require beneficial ownership information at renewal; however, banks may satisfy the requirement by obtaining verbal or written confirmation that the beneficial ownership information continues to be correct. The final answer in this group reiterates that the beneficial ownership rule does not cover existing accounts absent an event during routine monitoring indicating a possible change in customer risk profile that implicates a beneficial ownership change.

Questions 14-17 address updating beneficial ownership information throughout the customer relationship. These answers stress that the trigger for updating beneficial ownership depends on banks risk-based procedures and actual knowledge and reiterates that the information identification and verification requirements are the same when updating as at account opening/renewal.

Questions 18-31 address the definition of "legal entity" and some exceptions.

Questions 19 & 20 pertain to trusts and clarify that banks only need one trustee if there are multiple trustees and that if a trust is the beneficial owner, then banks must identify the trustee.

Questions 32-34 clarify that the beneficial ownership rule does not change banks' obligations for currency transaction report (CTR) filing and anti-money laundering (AML) program oversight.

Questions 35-37 address the need for banks to obtain, monitor, and update the nature and purpose of the customer relationship from account opening through the end of the customer relationship.

Throughout the guidance FinCEN stresses the need for banks to implement risk-based procedures for all aspects of the beneficial ownership and CDD rule. FIN-2018-G001 ends with contact information for the FinCEN Resource Center at **FRC@fincen.gov** or (800) 767-2825 for additional questions or comments. You can access the complete FAQs online at: **https://www.fincen.gov/sites/default/files/2018-04/FinCEN_Guidance_CDD_FAQ_FINAL_508_2.pdf.** ■

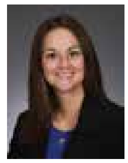
The Bank of Elk River is proud to welcome three new employees to its team.

Connie Jo Cyrus, Electronic Banking Specialist, was born and raised in Minnesota and started her career in technology where she held a customer support and project management role for 14 years. She transitioned into banking in 2001. Her experience working in various community banks has given her the opportunity to gain knowledge and experience in consumer banking, commercial lending, mortgage lending, operations, and compliance.

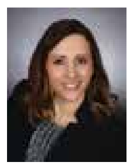
Michael Bartos, Commercial Lender, joins The Bank of Elk River with an education focused on economics and analytics as well as professional experience working with businesses in the banking industry. Originally from Flint, Michigan, Bartos attended Northern Michigan University and earned a Bachelor of Science degree in economics.

The Bank of Elk River is proud to welcome **Carl Gebhardt** as a new addition to the Commercial Lending staff. Gebhardt joins The Bank of Elk River with a diverse financial services and banking background. Originally from Plymouth, and a graduate of Wayzata High School, Gebhardt attended Montana State University in Bozeman and earned a Bachelor of Science degree in Finance.

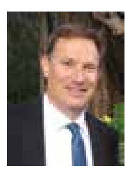
Marilee Jager joined Citizens Alliance Bank in the Clara City location as a Commercial Lending Officer. In this role, she will be responsible for developing and maintaining business customer relationships in Clara City and the surrounding communities. She also serves as a financial consultant to customers and prospects by utilizing a network of contacts to help them build a team of financial professionals such as accountants, attorneys, rural development companies and small business advisors.



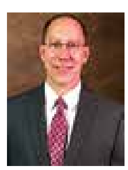
U.S. Bank is pleased to announce that **Abby Legatt** has been hired as an Assistant Relationship Manager in the Mid-NE Minnesota Region. In this role, she will focus on supporting commercial portfolios and client management. Abby is a graduate of Sartell High School and the University of North Dakota. Abby brings eight years of experience in the financial services industry, with a specialty in small business development.



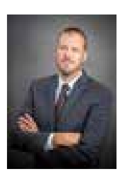
U.S. Bank is pleased to announce the addition of **Caryn Stadther**, Treasury Management Deposits/Payments Consultant, to their Commercial Community Banking Team, Downtown St. Cloud. Caryn has over 20 years of banking experience in Central MN, with an extensive background in sales, marketing, business development and management. Caryn is a demonstrated advocate for building strong community relationships through active engagement and partnership. She is currently serving on the Executive Board for the Sauk Rapids Rice Education Foundation, on the Campaign Cabinet for The United Way of Central Minnesota, and is a St. Cloud Chamber "Top-Hat" Ambassador. Caryn will be based out of the Downtown St. Cloud office.



Dirk R. Gasterland accepted the position as Chief Executive Officer of Coulee Bank. Gasterland had worked as Executive Vice President for Coulee Bank since May of 2017. Gasterland will also step down as Chair of the Board of Director for Coulee Bank but will remain on as a Coulee Bank Board Director.



Matt Nigbur accepted the position as Rochester Market President of Coulee Bank. Nigbur will assume leadership responsibilities over the Rochester market. Nigbur has 17 years of commercial lending experience in the Rochester area and has been with the bank since 2014.



Olaf Gilbertson, Coulee Bank's Chief Financial Officer has accepted the position of Vice Chair for the Coulee Bank Board of Directors. Gilbertson has been with the bank since 2015 and has served as director since 2005.

Brad Sturm accepted the position of Chair of the Coulee Bank Board of Directors. Sturm has been with the bank since 1993 and his last official day with Coulee Bank was March 31, 2018.

Bankers on the Move continued on page 32

The Trouble with Tariffs continued from page 21

During the year the embargo was in place, from January 1980 until President Reagan rescinded it in early 1981, feed grain exports from the U.S. were actually larger than in 1979; as other countries stepped in to sell grain to the Soviets, the American farmer was able to fill demand in other places. There was a fundamental need to cover Russia's drought-caused food shortage on the global balance sheet, but a more insidious trend began developing as well. The Soviet Union was no longer willing to trust the assurance from then-Secretary of Agriculture Earl Butz that grain purchases from the U.S. would be safe. They began offering attractive bids for feed grain from other countries, increasing production in South America, Canada, and in the (then Soviet) Ukraine. In other words, our antagonistic relationship with a grain customer taught that customer to shop around in other markets.

Wheat exports climbed through the 1970s, and, in 1980, were the largest in American history and corn exports were the third largest in history. In the four years following the embargo, Canadian wheat production increased 60 percent. Argentinian wheat production grew nearly 80 percent, and corn production in Argentina expanded nearly 58 percent. Brazil began increasing its cultivation of soybeans, and soybean meal production in Brazil jumped by 25 percent. America has yet to regain the same share of the global grain trade that she had in 1979.

I bring this up, because in all of the discussions of tariffs and reciprocal tariffs, of winning and losing in trade, the American farmer may well not see huge implications in the immediate aftermath of any actions, but longer term, these moves will further splinter the agricultural supply chain.

America has limited room to expand acres, so our productivity will be limited to future increases in yield; Brazil, on the other hand, has another 100 million acres of pastureland that could be converted into row crop production, and a majority of that could be double cropped. And the Ukraine and former Soviet Union states are seeing rapidly increasing production as well.

As lenders, farmers, and rural Americans, we must keep an eye on how the global trade environment continues to shift, and constantly be thinking long term. Modern agriculture is a truly global enterprise, and we need to remember that policy changes often come with unintended consequences; consequences we might need to live with five, ten, or twenty-five years in the future. ■

Mike Pearson is an independent market analyst, writer, and public speaker, and is the co-host of the Ag News Daily podcast. www.agnewsdaily.com

Editor's Note: We are proud to feature Mike Pearson as one of our two speakers for the agriculture banking breakout session at the 2018 MBA Annual Summit in Brainerd. Register now for the summit to hear more from Mike and other world class presenters. **www.minnbankers.com/annualsummit**.

Commodities Prices continued from page 22

Implications from a Workout Perspective

From a workout perspective, the threshold question should remain the same: Based on historical business data and prevailing trends, does the borrower appear to be running a viable farming operation that has a substantial likelihood of meeting the borrower's debt service obligations going forward? Rising commodities prices might be a component in this analysis, but that alone should not be an excuse to delay collection action with respect to a borrower who has an unprofitable operation that realistically shows little signs of improvement. As with any borrower, if there is a reasonable basis to believe in future viability, some measure of workout would seem to be advisable. If not, banks should position themselves for liquidation action.

Regardless of whether the ultimate aim is returning the loan to a performing status or facilitating liquidation, banks are well advised to consider forbearance agreements to help provide structure and direction to the workout. An increase in commodities prices could generate an increase in optimism that make the borrower more amenable to putting a formal repayment plan down on paper. This increased structure is almost always a good thing, even if the increase in commodities prices proves to be short lived and the borrower's finances continue to remain distressed, because forbearance agreements can facilitate an orderly and efficient liquidation if things do not improve.

Bottom Line

The bottom line is that regardless of whether a credit is in the initial lending phase, is a performing credit, or is in workout, rising commodities prices should influence – but not overwhelm – the decision-making process. Historical financial data and future projections rooted in historical financial data should still be the engines that drive lending and workout decisions. ■

Matt Bialick
Banking and Agricultural Finance Attorney
Johnson | Bialick
952-239-3095
matthew@jblawmn.com

MBA ASSOCIATE MEMBER

2018 Bank Day at the Capitol

Thank you to the more than 160 bankers who participated in another successful Bank Day at the Capitol!

The continued dedication by bankers to the important work of advocacy for the industry is critical to our political efforts.

Here are some scenes from St. Paul!

Mark Miedtke, President
Citizens State Bank of Hayfield
MBA Vice Chair/Treasurer

Representative Regina Barr (R)
Inver Grove Heights

Senator Paul E. Gazelka (R)
Senate Majority Leader
Nisswa

Joe Witt, MBA President/CEO addressing attendees

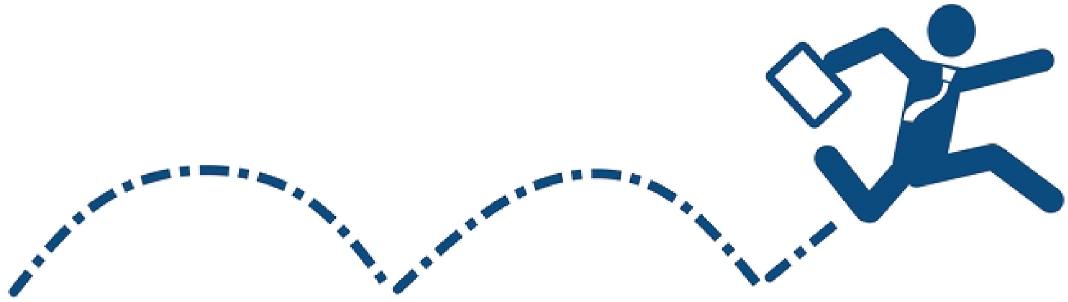
Ryan Wynia, First Farmers & Merchants Bank

Amanda Swoverland,
Sunrise Banks

Jen Flaten and Holly Swenson, U.S. Bank

John Hansen and Steve Daggett,
Midwest Bank

Scott Brandt, Wells Fargo; Dan Melcher, MBA; Ken Johnson and Jonathan Thompson, North Shore Bank



Look Before You Leap:

Using Simulations in a Decision-Making Framework

By Lester Murray

Over the last several years, community bankers have become well aware of the regulatory emphasis on, and requirements of, interest rate risk (IRR) management. Throughout the current and persistent environment of ultra-low interest rates, regulatory mandates have expanded to include more stressful rate scenarios under which income is projected and capital is valued. In addition, sensitivity testing (stressing) of various modeling assumptions has now become part and parcel of routine risk-measuring exercises. Another regulatory condition of these efforts is that they be conducted on a static balance sheet. Quite reasonably, examining agencies do not want to review reports in which interest rate risk could perhaps be masked by simple growth or changes in balance sheet composition.

Get the Most Out of Your Model

All of that is fine as far as it goes and is certainly adequate in helping to put a check-mark in the many regulatory boxes requiring one. But, if management stops there, it is failing to exploit what can perhaps be an IRR model's most valuable capability. That is, giving management the ability to view the outcomes of contemplated changes to strategies and tactics while they are still being contemplated, rather than waiting to experience the results after implementation. To some degree, this concept has already crept into the purview of regulators as they are strongly recommending that modeling processes include changes in the composition and volumes of various deposit accounts while exploring the potential effects of alternative funding sources.

This type of simulation is less about strategy, which management controls, and more about the consequences that higher interest rates may bring to bear on depositor behavior. And that is certainly something beyond anyone's control.

But, what about the things that management does control, or at least heavily influence? For instance, ideas that might successfully reach fruition if outcomes could be known, or missteps that might be avoided for the same reason. Suppose management is considering offering borrowers a new type of loan product with characteristics that may differ significantly from what is currently available. While no model will be able to determine how many customers may or may not go for the new product, performing simulations will allow decision-makers to quantify the effects of various levels of acceptance. Management now has a much better understanding of the risk/reward balance, or imbalance, of trying something new. What about a new kind of deposit product? Maybe a new, longer C.D. that provides for periodic rate adjustments. What if it brings in $5M in new money? What if it brings in $50M? How much do various volumes affect net interest income in various scenarios? What happens to the duration of liabilities and the economic value of equity? Much of the mystery surrounding these potential changes can be cleared up with the performance of strategic simulations.

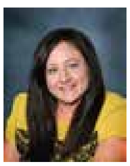
As community bankers know only too well, they operate in an extremely competitive environment. It's an environment in which adaption and innovation is not only a good idea, it's necessary for survival. Change for the sake of change is seldom beneficial and not all innovations bring about the desired results. By taking advantage of your IRR model's ability to simulate other-than-static outcomes, community bankers can have a better chance of finding strategies that have the greatest chance of success, and just as importantly, identifying the ones that don't. ■

Lester Murray
Associate Partner
The Baker Group LP
800.937.2257
lester@GoBaker.com

Bankers on the Move continued from page 26

Tom Screeden has joined Farmers State Bank of Hamel in the capacity of Senior Vice President and Commercial Lender. Tom will focus on commercial client relationships and business development. He brings 25+ years of community banking experience, having worked in the Delano, Rockford and Buffalo communities since 1992. In addition to banking, Tom serves on the Board of Directors of the Delano Chamber of Commerce, and is a long-standing member of the Delano Lions Club and Buffalo Rotary Club. Tom and his family reside in Delano.

Barbie Minzel has recently joined First Minnesota Bank as VP Operations/BSA Officer/Cashier. Barbie has 18 years of experience in the banking industry, most recently working for MidCountry Bank as Manager of Deposit Operations. At First Minnesota Bank, Barbie will be responsible for managing deposit operations and monitoring and minimizing risks to the bank. Barbie and her husband Nathan live in Carver and have three children. Barbie is involved in the community helping with her daughter's local Girl Scout Troop and serving as a Faith Formation teacher at her local church.



Woodland Bank announced the promotion of **Clair Skelly** to the role of new Branch Manager of the Grand Rapids office. In the banking industry since 2005 with experience in several positions, she has been at Woodland Bank since 2011. She is an active member of the Grand Rapids Chamber of Commerce.

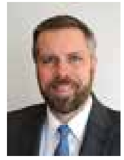
Welcome New Associate Member

Entrust Datacard 952-988-1193
Shakopee, MN www.entrustdatacard.com

Contact: Alyssa Arredondo
Director, Financial Vertical Marketing
alyssa.arredondo@entrustdatacard.com

Consumers, citizens and employees increasingly expect anywhere-anytime experiences — whether they are making purchases, crossing borders, issuing cards, or logging onto corporate networks. Entrust Datacard offers the trusted identity and secure transaction technologies that make those experiences reliable and secure. Solutions range from the instant and central issuance of payment cards, to the digital realm of authentication, certificates and secure communications. With more than 2,000 Entrust Datacard colleagues around the world, and a network of strong global partners, the company serves customers in 150 countries worldwide.

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.



Doug Hile, CEO of KleinBank, announced the appointment of **Matt Klein** to President. Klein has over 22 years of extensive experience in the financial services industry. Prior to becoming President of KleinBank, he served as KleinBank's Chief Consumer Banking Officer, President of the KleinBank branch in Savage, and Vice President of Business Development at KleinBank in Chaska. He came to KleinBank from Fleet Financial in Rhode Island where he served as Portfolio Manager and Financial Analyst. Originally from Victoria, MN, Klein holds a Bachelor of Science degree in Business Administration and a Master of Business Administration from Bryant College in Smithfield, RI. Klein is the fourth generation of his family to work for KleinBank.

William C. Rosacker, President and CEO of United Bankers' Bank has announced the promotion of five employees:

Angela Orcutt, Executive Vice President, Chief Human Resources Officer. Angela oversees the Human Resources team and provides UBB with overall strategic HR leadership. She supports the development and implementation of HR initiatives and systems, as well as recruiting, training and performance management of the UBB team. Her career at UBB began in 2010.

Tyson Doke, Vice President, Marketing Manager. Tyson leads the marketing team and is responsible for supporting and developing UBB's progressive vision with products and services to help customers maintain a competitive edge in their markets. He develops and implements strategies to build UBB's brand equity through advertising, sponsorships, promotions, research and digital marketing initiatives. Tyson joined UBB in 2013.

Stephanie Forbes, Assistant Vice President, Investment Trader. Stephanie is a licensed Municipal Securities Representative and assists customers in gaining access to the Brokered CD Market, as well as being an Investment Trading Officer. She has been with UBB since 2004.

Kris Thoman, Information Technology Services Manager, Officer. Kris heads the Technical Services team that supports all UBB employees in effective resolution of all IT related issues. She is also responsible for the development and ongoing support of user access for the security administration program. Kris joined UBB in 2016.

Kevin Wagner, Information Security Manager, Officer. Kevin is responsible for oversight of the UBB's Information Security Program, including IT governance, risk and compliance reporting. He is also responsible for managing the bank's Business Continuity, Vendor Management, and Enterprise Risk Management programs. Kevin began working at UBB in March 2017.

Bell Bank Announced Two Promotions:

Jason Pohlen has been promoted to President of Bell Bank's Alexandria location. Pohlen lives in Alexandria with his wife, Gina, and their three children.

Jeff Restad, who has served as Alexandria branch president since 2006, has been promoted to the Senior Business Development Manager for Bell Bank's correspondent banking team, which provides bank-to-bank lending services in seven states. Restad is a native of Langdon, N.D., and graduated from Minnesota State University – Moorhead. He has been in the banking field for his entire career, nearly 30 years, joining Bell Bank in 2003. Restad will continue to office in Alexandria, where he lives with his wife, Amy, and their three sons.

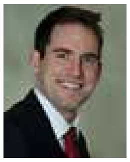
Citizens Bank Minnesota, Lakeville Branch, is pleased to announce that **Kyle Potswald** has joined the Citizens team as Assistant Vice President of Commercial Lending. Potswald is a graduate of Augsburg University with a B.A. in Finance with concentrations in Economics and Management Information Systems. He brings six years of related lending experience. Potswald grew up in Esko, Minnesota, and recently moved to Eagan. He enjoys the outdoors, attending sporting events, and spending time with his family.

Amber Euteneuer, Jr. Consumer Lender has been named an Americana Community Bank (ACB) officer. Euteneuer, who also serves as Executive Administrative Assistant and Loan Administrator, will perform the full-realm of Consumer Lending duties.

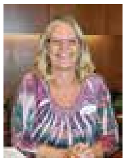
BOARD APPOINTMENTS

Gretchen Gasterland-Gustafsson has been newly elected to the Coulee Bank Board of Directors. Gasterland-Gustafsson is currently serving as an Assistant Professor at Minneapolis College of Art & Design.

Stearns Bank National Association named **Mary Jepperson** to the Board of Directors. Jepperson has a long history of breaking new ground in the financial industry. She began her career in the Minneapolis office of Coopers & Lybrand, where she became the office's first female partner. Highly experienced in forensic accounting and litigation services, Jepperson is now a Professor of Accounting and Finance at the College of Saint Benedict/Saint John's University.



Woodland Bank announced the appointment of **Tom McBride** to serve on the bank's board of directors. McBride, a Financial Advisor with Clairmont Financial, brings knowledge and a unique perspective of the financial sector, especially in the local area, and experience in leadership positions.



Pine Country Bank announced the appointment of **Lorna Lange** to serve on the bank's board of directors. Lange brings 40 years of banking experience with previous positions as Market President/Branch Manager for U.S. Bank and Assistant VP at First National Bank. ■

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.

Card Usage continued from page 23

Index of Advertisements

improved cardholder metrics, it seems that our proclivity to develop feelings of loyalty and trust to other humans — rather than products or logos — is almost certainly at play. Imagine you are a cardholder and you receive a credit or debit card featuring a full-color image of your favorite vacation spot or picture of your family pet or a photo of your kids (or grandkids). Every time you remove that card from your wallet or purse, you probably can't help to think, consciously or subconsciously, "this company knows me."

The problem was that getting customized images onto cards wasn't easy or cheap. Most cards were designed in advance and printed in large quantities on plastic well before the personalization process, when individual cardholder data was encoded onto magnetic stripes and printed on the card using monochrome variable text.

On-demand printing creates opportunity — and incredible differentiation awaits

Comprehensive on-demand printing solutions are available today which allow issuers to print completely customized full-color cards, labels and carriers as part of the inline card personalization process. This creates endless possibilities.

The technology allows card marketers to give their customers the ability to choose their card design (whether from a gallery of images or a truly custom uploaded image). These cards can be instantly issued in a branch, a retail location, or even remotely at events. For high-volume issuance, the impact to operations is negligible in terms of both speed and cost, which is critical for large-scale adoption. For many operations teams, it's a simple upgrade to existing hardware.

In other words, without significantly adding cost or slowing the issuance process, card marketers can now offer prospective customers the ability to make each credit and debit card truly theirs. Card marketers can capitalize on a growing demand for personalized offerings that reflect the lifestyle, values, interests or preferences of the individual consumer. Effectively achieving product differentiation, attracting new cardholders and deepening loyalty.

Success with new generations of cardholders will require perfect alignment of technology and strategic objectives. You now have the power to make this a reality. Complete card-to-envelope solutions give you more flexibility than ever to deliver an individualized, immersive experience for cardholders, without impacting operational efficiency. ■

Sources:

1. http://www.gemalto.com/brochures site/download-site/Documents/fs allynis_allaboutme.pdf
2. http://cdn2.hubspot.net hubfs/328080/Boxever-Tnooz History_of_Personalization_ June_2015_1pdf?submissionGuid=4a 5a5d8-250b-4b0e-8fd1-4ddb852154e6
3. http://www.sailthru.com/marketing blog/written-the-importance-of customer-retention-and-3-ways-to improve-yours/
4. http://www.bain.com/Images/BB Prescription_cutting_costs.pdf

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Memorandum

To: MBA Members
cc: Joe Witt, MBA President/CEO
From: Mark White, MBA Chair
Date: May 1, 2018
Re: MBA Committee/Involvement Groups for 2018 – 2019

Expand your network. Grow your leadership. Support Minnesota bankers.
Whether your interest lies in lending, technology, human resources or agriculture, we need your expertise. Your involvement as a committee member is vital to the MBA as we respond to the rapidly changing political, regulatory and educational needs of today's banking industry. We will be organizing our committees in July 2018 for the 2018 – 2019 year. If you are interested, fill out the form on the back side of this memo and return it to the MBA today!

Opportunities
The MBA has three types of banker involvement groups: committees, special interest groups, and task forces. The differences are in the length of member involvement and charge. **Committee** members are asked to serve up to three one-year appointments. **Special interest groups** and **task forces** have no restrictions on the length of appointment. All committees, special interest groups, and task forces report to the MBA Board of Directors. Each group has an MBA staff liaison that plans meetings, takes minutes, and carries out the work of the group.

Your Role
Although each group may vary, your involvement typically would require you to meet in person or by phone two or three times per year and occasionally respond to emails. Bankers advise staff on current banking issues related to the committee, task force or special interest group and help plan education events by suggesting speakers and developing content or topics.

Most of the meetings take place at the MBA offices in Eden Prairie. They start mid-morning to allow for travel time and conclude after lunch. Most groups meet during the months of September through May. The MBA reimburses bankers for mileage or travel expenses and provides lunch. We strongly encourage involvement by bankers across the state to ensure a broad range of insights and experiences in the association. Many members find the committees, special interest groups, and task forces are important sources of networking and keeping in touch with what's going on in Minnesota banking. Hundreds of Minnesota bankers are involved in our groups, and we hope you will be too!

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

2018 – 2019 MBA Committee/Involvement Groups

How to Sign Up:

- If you want to volunteer, fill out the form below and list the group you are interested in.
- Return by email to kimp@minnbankers.com or fax to (952) 896-1100, **Attention: Kim Philipson by July 2, 2018.**

Name: ____

Bank Title: ____

Bank Name: ____

Address: ____

City/State/Zip: ____

Phone: ______________________________

Email: ____

Purpose statements and additional information about these groups can be found on www.minnbankers.com under the "The Association" tab.

Committees:

______ Agriculture
______ Compliance
______ Technology/Operations
_______ Commercial/Retail Lending
_______ Education/Human Resources
_______ Marketing

Special Interest Groups:

______ Government Relations Council
______ Credit Union

Task Forces:

_______ Annual Conference/Bank Management
_______ Chief Financial Officers Conference
_______ Next Generation Bankers
_______ Women's Leadership Conference

Please mark a 2nd choice, as there may be limited slots on some committees, task forces, and special interest groups

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SENIOR MANAGEMENT

12th Annual
Bank Financial Officers Conference

DATE & LOCATION

September 10, 2018
Embassy Suites
2800 American Blvd. West
Bloomington, MN
952-884-4811

PROGRAM OVERVIEW

The role of the bank CFO, Controller, or Cashier is tougher than ever. Interest margins are compressed and competition is intense for deposits and fee income. The accounting, tax, and regulatory environment is ever-changing. Every day you are charged with the task of navigating today's ever-changing economy.

The MBA Bank Financial Officers Conference can help you by providing the latest updates and strategic insights that you need to lead your bank to success. Stay current on the issues affecting you with specialized professional education opportunities covering the topics you need to hear about from industry experts. This program allows for extensive peer interaction and resource sharing.

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.

SCHEDULE

9:00 a.m. **Political/Regulatory Update –** *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.

9:30 a.m. **The Amazon Prime Effect – Surviving in the New Subscription Society –** *Dave DeFazio, StrategyCorp*
Subscription services are quickly becoming the dominate strategy of today's best retailers and have caused a monumental shift in the way people buy. More than 50% of all American households now subscribe to this and other retail services such as Netflix, Spotify, and Dollar Shave Club. Bankers have a duty to understand these trends and drive their institution beyond transactions to connect better with the lifestyles of today's consumers.

11:00 a.m. **Effective Communication for Successful Leadership –** *Patrice McGuire, Graduate School of Banking-Madison*
"Do you know what the problem is in our organization? Poor communication." Sound familiar? Leaders at all levels are involved in communication daily. That's how things get done. However, if leaders are not effective communicators expectations go unmet, errors happen, people are unhappy, morale takes a hit and ultimately people leave. In this session, leaders will review their own communication tendencies and behaviors that might be getting in the way of effectively communicating. Leaders will also identify ways to clearly communicate expectations, hold people accountable and support and encourage others along the way. Leaders will walk away with eight strategies on Effective Communication for Successful Leadership.

12:15 p.m. **Lunch**

1:20 p.m. **If Our Economy is Cyclical, We May be in for 30 Years of Higher Rates Starting… –** *Josh Kiefer, Country Club Bank*

Where are rates headed and how long will it take to get there? **I have no clue!** In this session we will identify some tools used to predict different economic outcomes. If you are a believer in technical analysis and cyclical market trends, I'm afraid the outcome will require us to take a completely different management approach as it relates to balance sheets.

1:50 p.m. **Managing Interest Rate Risk, Liquidity and Performance in A Rising Rate Environment –** *Ryan Hayhurst, The Baker Group*

With the Federal Reserve in the middle of its first tightening cycle in more than a decade, finding a balance between interest rate risk, liquidity and performance has never been more critical. You can improve your liquidity position by holding a lot of cash, but performance suffers. You can increase performance with long term fixed rate assets, but you may have to take on significant IRR to get there. Managing any one of these issues in isolation is easy but managing all three simultaneously is a challenge that all community banks must face. This session will explore the unique relationship between IRR, liquidity and performance and give you specific ideas about how to manage all three simultaneously. Case studies will be used to develop a Dynamic Liquidity Risk Management process and to present recommendations about how to improve investment portfolio performance while also managing IRR. Attendees will see bank-specific data and analysis that will include a peer group comparison, non-maturity deposit analysis, surge balance study and a Liquidity Stress Test. If desired, these analyses will be provided to each attendee after the session.

Topics will include:

- Community bank trends and the potential impact of rising rates and a flatter yield curve on 2018 earnings
- What the highest performing banks do well to stay on top while still managing their risk profile
- ALCO best practices for complying with the heightened regulatory scrutiny on interest rate and liquidity risk management
- Strategies to more effectively manage liquidity without sacrificing performance
- Managing extension risk and price volatility in the bond portfolio with effective security selection

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12th Annual Bank Financial Officers 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 for first person 2nd registrant from same bank: $275	Qualified Non-Member: $550
DATE & LOCATION	September 10, 2018 Embassy Suites 2800 American Blvd. West, Bloomington (Between Penn & France Avenues)	

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.

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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:
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HUMAN RESOURCES/BANK MANAGEMENT

Succeeding at Succession Workshop

Co-Sponsored with:

Graduate School of Banking
at the University of Wisconsin – Madison

Minnesota Bankers Association
The Champion for Minnesota Bankers

DATE & LOCATION

October 25, 2018
Minnesota Bankers Association
8050 Washington Avenue South
Eden Prairie, MN 55344
952-835-3900

WHO SHOULD PARTICIPATE

HR leaders and bank executives responsible for Succession processes and programs.

WORKSHOP OVERVIEW

Many banks have implemented steps for succession management such as assessing talent, identifying candidates for critical positions, and introducing Development Planning. This workshop is "part 2" of the Talent Assessment & Succession series, looking deeper into leadership development, engaging stakeholders in the development process, and applying techniques to keep the processes vibrant and on-going.

AGENDA

I. Introduction and Background
- Talent Management and Succession
- Managing your Human Capital Portfolio
- Linking Development and Strategy

II. Executing Effective Succession Management
- Managing the Talent Assessment meeting and discussion
- Working with your 9-box grid results
- Engaging the Board and C-Suite in Development
- Engaging Managers and Employees
- Managing employee expectations

III. Getting the Most Out of Developmental Experiences
- Identifying Potential
- Linking Potential and Levels of Competence
- Creating effective developmental experiences

IV. Keeping Succession Alive
- The next generation of Leadership Development
- Vertical Development vs Horizontal Development
- Collective Leadership vs Individual Leadership

V. Wrap up and Next Steps

PRESENTER

Cheryl Thomas, Managing Director, Impacting People LLC, is a seasoned Human Resources leader, with more than 30 years of diversified human resources experience. Throughout her career, she has worked with Executive Teams and Boards leading and managing work in areas including leadership and employee development, rewards, organizational culture, employee engagement, Human Resources strategy. Her experience crosses multiple industries including financial services, healthcare and manufacturing. She has worked domestically and globally. She is a member of the Graduate School of Banking faculty.

Succeeding at Succession Workshop

DATE	October 25, 2018	
CHECK IN	8:30 a.m.	
PROGRAM	9:00 a.m. – 2:00 p.m.	
REGISTRATION FEE (Fee includes materials, continental breakfast, and lunch)	Member: $295.00 Each additional person from same bank: $245.00	Qualified Non Member: $570.00
LOCATION	Minnesota Bankers Association 8050 Washington Avenue South Eden Prairie, MN 55344 952-835-3900	
	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)	

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HUMAN RESOURCES/BANK MANAGEMENT

Talent Assessment and Succession Workshop

Co-Sponsored with:

Graduate School of Banking
at the University of Wisconsin – Madison

MINNESOTA BANKERS ASSOCIATION
THE CHAMPION FOR MINNESOTA BANKERS

DATE & LOCATION

September 13, 2018
Minnesota Bankers Association
8050 Washington Avenue South
Eden Prairie, MN 55344
952-835-3900

WHO SHOULD PARTICIPATE

HR leaders and bank executives

WORKSHOP OVERVIEW

To introduce concepts of Talent Assessment and Succession Management and train leaders on the use of basic processes and tools.

AGENDA

I. Background

- Talent Management and Succession
  - The connection to Strategic Planning
  - The importance of following a process
- Managing your Human Capital Portfolio
  - Maximizing the Return
  - Managing the Risks

II. Talent Assessment

- Defining Talent
- Dimensions of Talent - Performance and Potential

III. Succession Planning

- Focus on Critical Positions
- Defining Roles
- Defining Readiness

IV. Talent Development

- "ARC" Model
- Development Approaches, Programs and Activities

V. Succession Management Process

- Process Steps
- Tools

VI. Putting the Process into Action

VII. Wrap-up and Next Steps

PRESENTER

Cheryl Thomas, Managing Director, Impacting People LLC, is a seasoned Human Resources leader, with more than 30 years of diversified human resources experience. Throughout her career, she has worked with Executive Teams and Boards leading and managing work in areas including leadership and employee development, rewards, organizational culture, employee engagement, Human Resources strategy. Her experience crosses multiple industries including financial services, healthcare and manufacturing. She has worked domestically and globally. She is a member of the Graduate School of Banking faculty.

Talent Assessment and Succession Workshop

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March 2018 (No. 240)

Congress modifies tax-bill provision benefiting ag coops

As last month's **FCW** reported, the major tax bill Congress enacted at the end of last year added a new section 199A to the Internal Revenue Code, one portion of which would greatly benefit agricultural cooperatives at the expense of investor-owned grain companies of all sizes — not only Cargill and Archer Daniels Midland but also much small companies purchasing grain from farmers. That would be the case because 199A would allow farmers "to deduct up to 20 percent of their totals sales to cooperatives," which would have let some farmers reduce their taxable income to zero. Quite understandably, investor-owned grain companies of all sizes protested the obvious unfairness, to them, of 199A, calling it the "grain glitch." Congress responded to their complaints, in the just-passed omnibus spending bill, with a provision that caps a farmer's deduction on grain sales to coops at 20 percent of net income, excluding capital gains. Farmers still retain other benefits from doing business at coops where they are members. The FCS, and CoBank in particular, may still benefit from the revised provision, to the extent that it results in increased loan demand from coops that borrow from CoBank.

Tax bill drives the FCS's effective tax rate even lower

One effect of last year's tax bill was to drive the FCS's effective tax rate in 2017 to a new low — to just 0.73 percent, compared to 3.48 percent for 2016 and 4.03 percent for 2015. This sharp decline was due largely to the tax bill's effect on CoBank. Like other corporations, CoBank had to recalculated its deferred tax assets and tax liabilities, as of the end of 2017, at the new lower tax rate; doing so generated a $142.3 million tax **benefit** for CoBank, reducing its tax bill from $171 million in 2015 and $158 million in 2016 to just $15 million for 2017. The tax bill for the rest of the FCS actually increased, from a miniscule $17 million in 2016, for an effective tax rate of just 0.43 percent, to a still miniscule $23 million, on $4.087 billion of pre-tax income in 2017, for an effective tax rate of 0.56 percent. These absurdly low effective tax rates highlight why Congress needs to undertake a fundamental examination of how the FCS is taxed relative to commercial banks and other taxpaying firms financing farmers and rural America.

FCSIC rebates $162.7 million to FCS institutions

The Farm Credit System Insurance Corporation (FCSIC), the arm of the FCS which insures the timely payment of principal and interest on debt issued by the Federal Farm Credit Banks Funding Corporation (the FCS's link to the capital markets), will "return" to the four FCS banks $162.7 million of "excess funds." This return of these funds essentially is a rebate of premiums previously paid by the banks to the FCSIC. Each bank, in turn, almost certainly will rebate a substantial portion of the excess funds it receives to the FCS associations it funds, reflecting the fact that each bank allocates to those associations a portion of the premiums the bank pays to the FCSIC. This rebate has occurred because the fund balance in the FCSIC currently exceeds the amount of assets the FCSIC must hold to meet a minimum balance requirement, called the "secure base amount," equal to 2 percent of the outstanding debt issued by the Funding Corporation.

The timing of this rebate is questionable given the likelihood of growing credit-quality problems within the FCS due to declining net farm income and the unwise practice of some associations to encourage their borrowers to defer loan principal repayments, a practice I questioned in last month's FCW. As the FCSIC news release announcing this rebate noted, "the FCSIC board has the authority to hold the excess funds if conditions warrant doing so." Current conditions certainly do warrant holding back those excess funds. It would have been far more appropriate, though, for the FCSIC to send those funds to the U.S. Treasury as compensation for the $10 billion taxpayer-backed line-of-credit Treasury began providing to the FCSIC in September 2013. In the December 2017 **FCW**, I discussed the most recent extension of this line-of-credit, to September 2018. To date, the FCSIC has paid absolutely zero to the Treasury for this line of credit. Sending this FCSIC payment to the Treasury also would compensate taxpayers for the insufficient amount of income tax paid by the FCS, as discussed above.

Lone Star Ag Credit not subject to an FCA enforcement order

As prior issues of the FCW have reported, Loan Star Ag Credit, which is headquartered in Fort Worth, Texas, has not issued any financial reports since the first quarter of 2017. On August 9, 2017, Lone Star issued a letter stating that its financial statements for 2016 and the first quarter of 2017 "should no longer be relied upon" due to it having discovered "appraisal and accounting irregularities affecting a segment of [Lone Star's] lending portfolio." Additionally, the Farm Credit Administration (FCA) withdrew from its database all Lone Star call reports filed with the FCA after 2015. In effect, Lone Star's finances have been a black hole for over two years. Worse, Lone Star "is not in compliance with some requirements of its general financing agreement with the Farm Credit Bank of Texas, its funding bank." That bank has dealt with Lone Star's accounting problems by issuing a "waiver of default" so that Lone Star can continue borrowing from the bank.

What is especially troubling about the Lone Star accounting mess is that the FCA apparently has not issued any enforcement order, or written agreement, as the FCA calls such orders, against Lone Star. The absence of any FCA written agreement against Lone Star can be deduced from the fact that in the discussion of FCS regulatory matters in the 2017 Annual Information Statement of the Farm Credit System, published by the Funding Corporation, there is no discussion of written agreements the FCA has entered into with FCS institutions. Prior years' Information Statements have indicated how many written agreements were outstanding and the total assets of the institutions subject to written agreements. The apparent absence of an enforcement order against Lone Star evidences a serious problem at the FCA — its continued unwillingness to publish its enforcement orders, something the banking regulators routinely do. Any bank with accounting problems of the magnitude of Lone Star's would have long ago been subject to a tough enforcement order issued by its primary federal regulator, and that order would have been published for all to read.

What FCS associations are you competing against?

I often find that bankers do not know which FCS association or associations they are competing against or where local FCS offices are located. The Farm Credit Council, the FCS trade association, has helpfully made that information available, on farmcredit.com/locations. Simply select a state and office type (branch or headquarters) and then click on Apply to find those office locations. You also can search by ZIP code, county, or city. Learn more about your local FCS competition — who they are and where they are located — by using this easy-to-use search tool.

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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

April 2018 (No. 241)

The Farm Credit Watch at 20

Several readers noted that last month's FCW, issue #240, marked the 20th anniversary of the monthly publication of the FCW, which triggered a look-back at the FCW's accomplishments over the last 20 years, and there have been a few. Perhaps the most significant has been educating bankers and other readers about what the FCS — America's least known GSE — actually is and how it has been evolving in recent decades, for the FCS has the most complex structure of any GSE, with its banks, associations, funding corporation, and a little-known regulator, the Farm Credit Administration (FCA). FCW also has educated its readers about the FCS's many competitive advantages Congress and the states have blessed it with, notably the exemption of the profits on its real estate lending from any corporate income taxation, its ability to borrow at interest rates just above Treasury rates, and its exemption from many state and local requirements, such as paying lien recording fees.

Although the FCS still has substantial competitive advantages over taxpaying banks, there have been some victories that have at least slowed down the FCS's continued growth. Hopefully there will be more such victories. An early, clear-cut victory was the defeat, late in the last decade, of the so-called Horizons Project. Based on materials that fell off a turnip truck passing by my office in the fall of 2005, in the Dec. 2005 FCW, I gave readers a heads up that the FCS, through its trade association, the Farm Credit Council, was launching a major initiative, called the Horizons project, that would expand the FCS's off-farm lending powers so that the FCS could serve all of rural America. Commercial banks, of course, more than adequately meet that **off-farm** credit demand. Within a few years, after numerous FCW articles criticizing the Horizons project, this proposal faded away.

Before Horizons, the FCA proposed a "customer's choice" rule that would have allowed an eligible party to borrow from any FCS institution, regardless of that institution's assigned territory. In reality, this was a "lender's choice" rule that would have permitted any FCS institution to lend anywhere in the United States. With lender's choice, FCS institutions, with their taxpayer-backed borrowing power, would have been able to compete against each other in lending to agricultural borrowers. Credit quality surely would have deteriorated as FCS institutions expanded their out-of-market lending. Strong opposition to the customer choice proposal, fueled by numerous FCW articles, led to a successor proposal by the FCA — national charters — which would have enabled an FCS association to obtain a charter from the FCA authorizing it to lend anywhere in the United States. Strong congressional opposition to national charters, led by Rep. Jim Leach (R-IA), then the chairman of the House Banking Committee, coupled with hearings held by both Agriculture Committees, followed by opposition from the George W. Bush administration, led the FCA to kill the National Charters proposal on Oct. 11, 2001. There has been no serious attempt since then to revive it.

More recently, CoBank, which has the exclusive authority within the FCS to lend to agricultural and rural utility cooperatives, had begun lending to large, investor-owned utilities such as AT&T and Verizon, by buying participations in loans originated by large banks. CoBank would then resell portions of those participations to other FCS institutions. Numerous FCW articles challenged this CoBank activity, which led to sharp questioning of this practice by members of both the House and Senate Agriculture Committees. As best I can tell from publicly available information, CoBank has stopped buying such loan participations and may have even sold some of them. But vigilance must never cease, which is why I continue to value greatly all the tips I get from bankers and others about FCS activities that exceed its lending and investing authorities. Dear readers, please keep it up!

Who dropped the ball?

Responsible parties within the FCS have been dropping the ball in recent years with regard to important supervisory and regulatory responsibilities of the FCA and FCS banks, apart from the repeated instances where FCS institutions have lent to borrowers ineligible to borrow from the FCS or for purposes not authorized by the Farm Credit Act. Two glaring examples of inept oversight by the FCA and FCS banks that I have reported in the FCW have been the accounting problems, and possible lending fraud, at two FCS associations — FCS Southwest, which served most of Arizona and a small portion of

California, and Lone Star Ag Credit, which serves a portion of Texas. Each association had to withdraw its financial statements and call reports, pending a restatement of them. FCS Southwest was later forced to merge with Farm Credit West; the fate of Lone Star Ag Credit has not yet been determined. In both situations, FCA examiners failed to detect the serious accounting and credit management problems at those associations. Additionally, the FCS banks providing most of the funding for these associations — CoBank for FCS Southwest and Farm Credit Bank of Texas for Lone Star — failed to adequately monitor their credit-risk exposure to these associations.

Perhaps a more serious case of the ball being dropped is the apparent lack of diligence by the FCA in ensuring that every FCS institution fully complies with the Bank Secrecy Act (BSA) and its anti-money laundering (AML) provisions. The FCA's examination guidance, for example, is sketchy at best in discussing steps FCA examiners must take in ensuring BSA/AML compliance by every FCS institution. Non-compliance has become increasingly likely as the FCS's deposit-taking activities have increased, a topic I have discussed in prior FCWs. In surveying the websites of the four FCS banks as well as the larger FCS associations, I found just one reference to AML — a one-page Anti-Money Laundering & USA Patriot Act Certification on CoBank's website. What is almost comical is this statement in the certification — "it is the policy of CoBank and its subsidiary . . . to comply with AML laws and regulations, including the Bank Secrecy Act, the USA Patriot Act, and the Office of Foreign Asset Control (OFAC) regulations." The word "policy" suggests that CoBank's compliance with these laws and regulations is voluntary — compliance certainly should be mandatory, as it should be for every FCS institution, and as it is for commercial banks. The FCA will be deeply embarrassed when news erupts that an FCS institution has been utilized to launder illicit funds to, for example, purchase a farm or ranch or an agriculturally related business.

How should the FCS be restructured?

As I have previously reported, most recently in the Feb. 2018 FCW, FCA Chairman Dallas Tonsager has repeatedly urged FCS institutions to consider how the FCS should be restructured, specifically "the relationship between the funding bank and its associations." CoBank echoed that call in its 2017 annual report, posing this question: How will the FCS evolve to ensure it is optimally configured to serve customers and fulfill its vital mission going forward? An excellent question, but not one to be addressed solely by the FCS. To move the debate forward, Tonsager, CoBank, and others within the FCS should put specific restructuring proposals on the table. For example, should larger associations be able to obtain their funding directly from the Federal Farm Credit Banks Funding Corporation?

Reform Farm Credit' Website Refreshed as Part of ABA-Led Campaign

As part of ABA's effort to reach influential groups involved in agricultural policy, ReformFarmCredit.org has been refreshed. Originally created three years ago to increase awareness of the risks posed by the Farm Credit System, the new website continues to build on the success of the reform campaign by better showcasing the latest research and information about the uneven playing field between the FCS and agricultural banks.

The revamped site provides taxpayers concrete examples of how the FCS' tax-exempt status affects them as individuals and mobilizes them to take action by sharing the website and its materials further on social media. The website also houses information on the problems associated with the FCS -- including issues related to mission creep, lax standards for loans and appraisal conflicts -- making it a top resource for policymakers, third party alliances and members of the media interested in the issue.

The updated site also emphasizes the 2018 Farm Bill as a major opportunity to revisit the agricultural credit conversation and ensure that American farmers have access to the credit they need. Visit the website.


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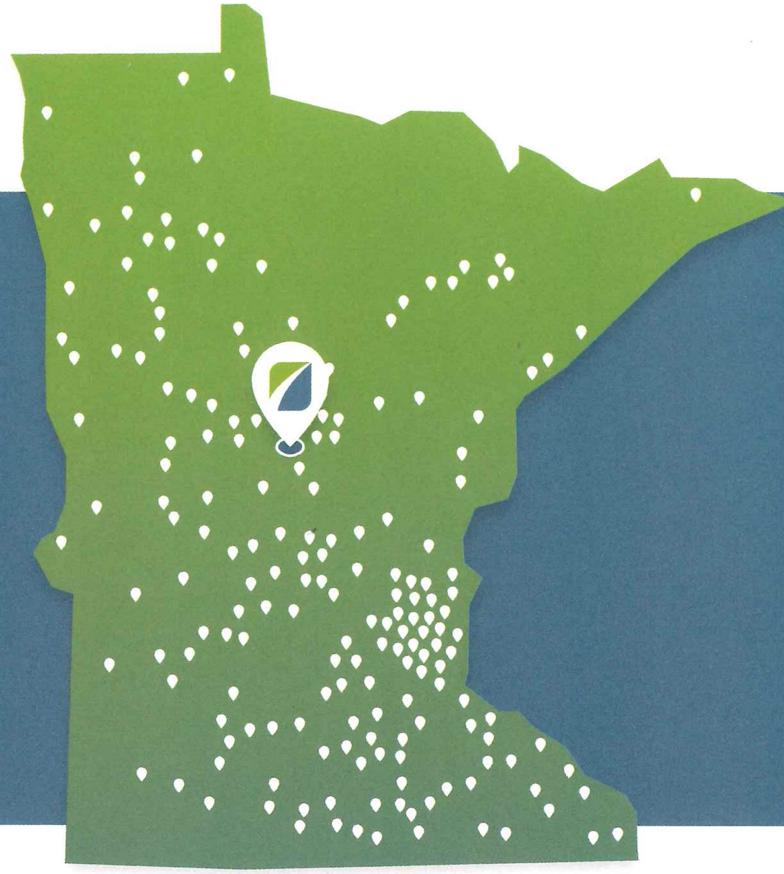

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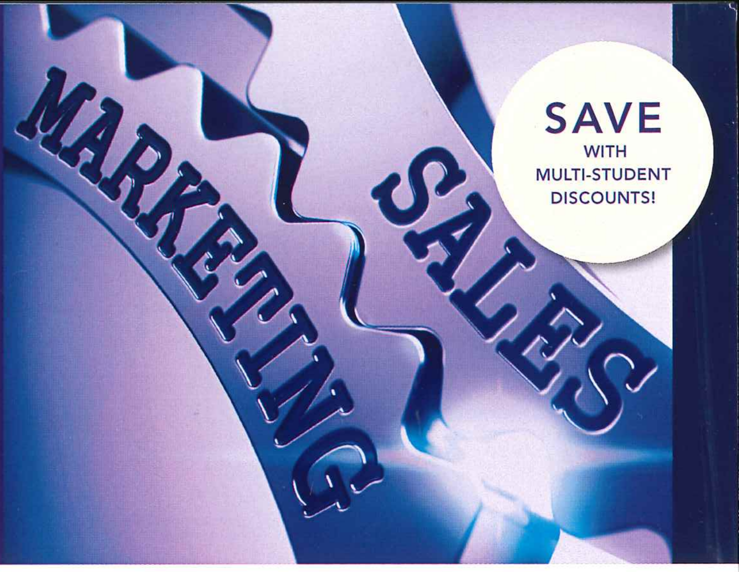

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- Sales & Marketing Budgeting and ROI
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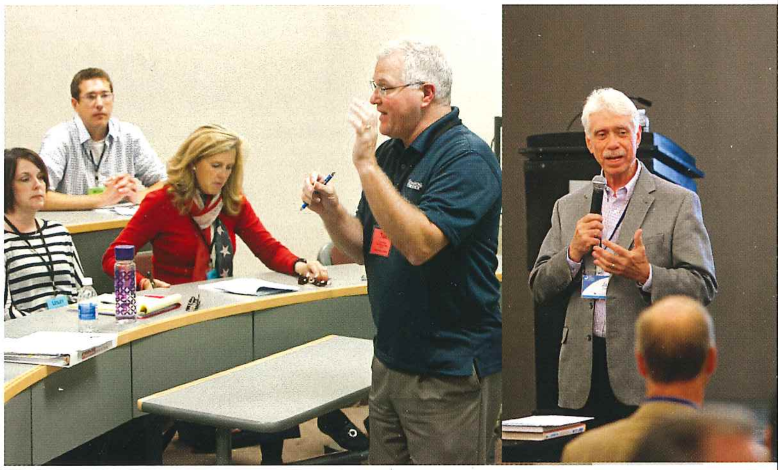

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