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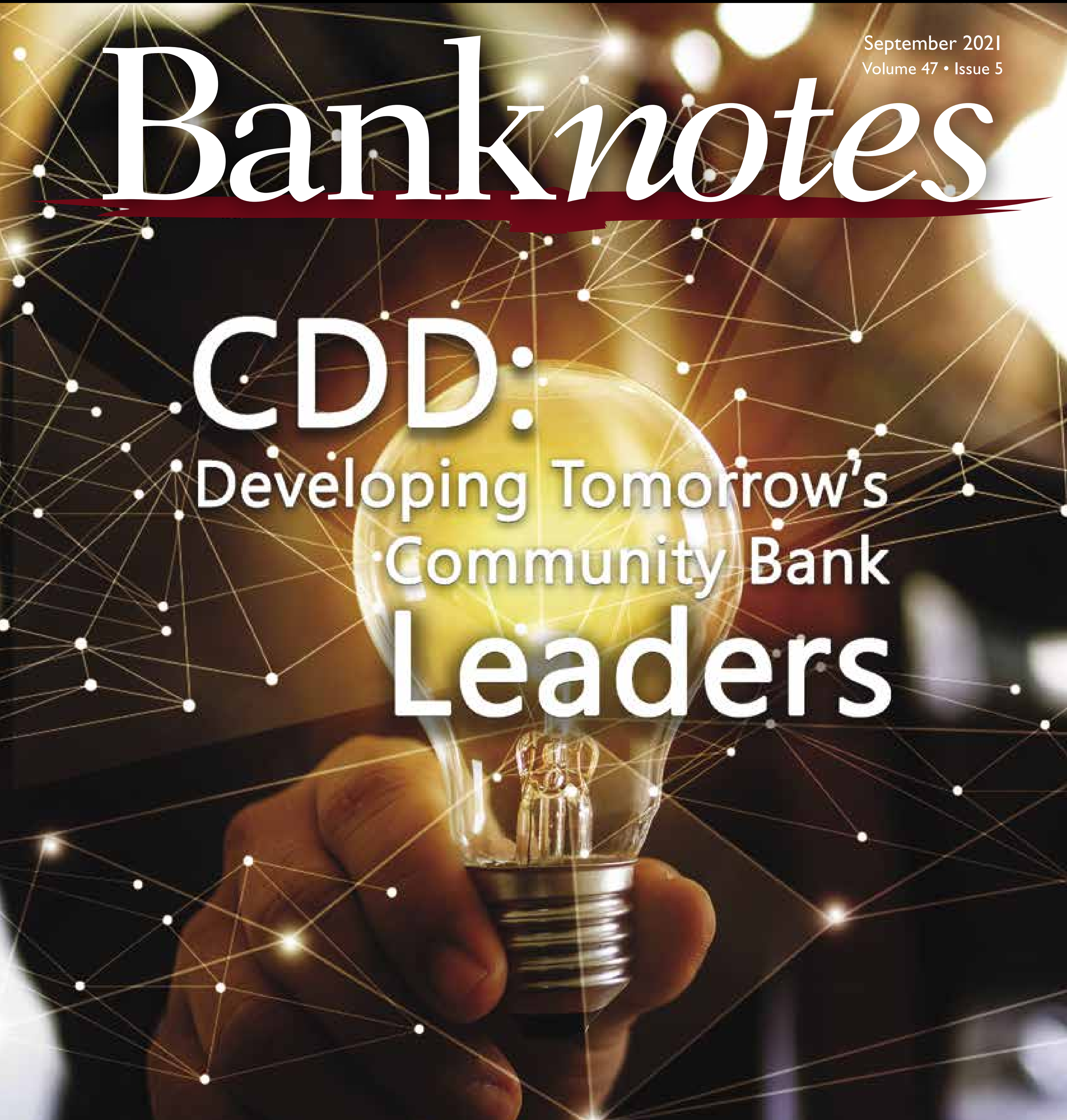

CDD: Developing Tomorrow's Community Bank Leaders

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Municipal Credit Update:

2020 FINANCIAL PERFORMANCE BETTER THAN EXPECTED

Dana Sparkman, Senior Vice President/Municipal Analyst, The Baker Group, Oklahoma City, OK

At the onset of the COVID-19 pandemic in the United States, strict shutdowns and stay-at-home orders created concern for the economy and municipal finances. Forecasts for tax revenue were bleak with anticipated double-digit declines, and many state and local governments braced for a serious financial blow by adjusting budgets, cutting expenses, and delaying non-essential projects. More than a year has passed since the beginning of the pandemic, many governments have published financial statements that include at least a portion of the pandemic, and we now have much more data about how the pandemic has affected municipal credit quality.

Interestingly, tax revenues did not fall near as much as expected. Total state tax revenue was down by almost 1% in 2020 versus 2019 according to US Census data, which was much less than originally feared, and half of the states actually had an increase in their total tax revenue. Property tax revenue grew by about 4.1% on average, but general sales taxes and special sales taxes declined by 1.6% and 3.5%, respectively. Zillow reported that average home values across the US increased by 13.2% over the past year. So, although property tax trend changes tend to lag economic changes, property tax revenue — the main revenue source for most local governments — may not be negatively affected by the pandemic.

The CARES Act in 2020 supported consumer spending, and thereby sales tax revenues, with $290 billion in payments to consumers and $270 billion in expanded unemployment benefits. According to the Bureau of Economic Analysis, transfer payments to individuals were the main reason personal income increased by 6.1% in 2020 despite very high unemployment. The CARES Act further boosted municipal revenues in 2020 by providing $150 billion directly to state and local governments, and the American Rescue Plan (ARP) Act, passed in March 2021, provided another $350 billion to state and local governments, which will help to strengthen municipal credit quality in the 2021 fiscal year as well. Of the $350 billion designated for state and local governments, $195 billion were allocated for states, which is more than 30 times the aggregate decline in tax revenue from 2019 to 2020. However, some states may experience greater declines in tax revenue in 2021, given that most of the pandemic occurred during the 2021 fiscal year rather than the 2020 fiscal year. Exhibit one breaks down the comparison of 2020 tax revenue changes and ARP Act funding by state for the largest 20 recipients of the ARP funds.

Over 90% of transportation bonds, 40% of higher education, and 20% of states had a negative outlook or experienced a downgrade by S&P during 2020, but that trend seems to have reversed so far in 2021. S&P revised the outlooks of general public finance sectors such as states, local governments, and school districts from negative to stable in early 2021. Also, during the first five months of 2021, Connecticut was upgraded by S&P; Alaska, New Mexico, Oklahoma, and Illinois all had outlooks revised from negative to stable by S&P; and The Baker Group's clients experienced 1.6 upgrades for every downgrade in the first five months of 2021 compared to 0.77 upgrades per downgrade in 2020.

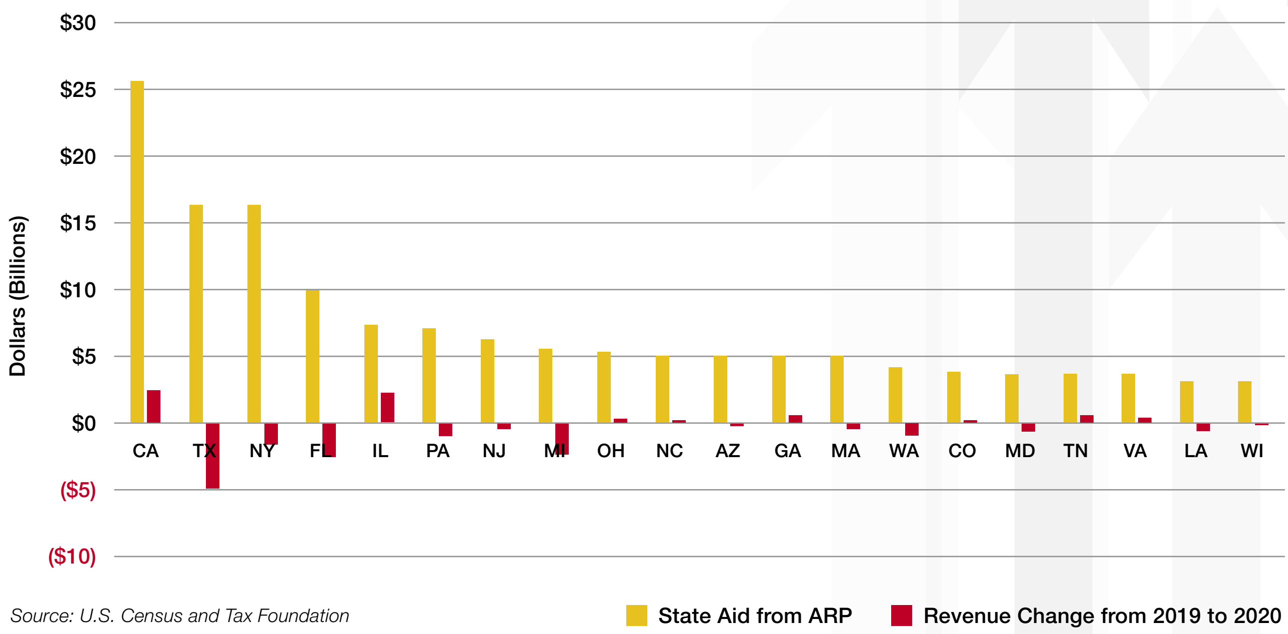
Despite all this good news about the credit quality of the municipal market broadly, some specific issuers did struggle. According to Bloomberg data, there were $2.1 billion of defaults during 2020, (0.05% of the $3.9 trillion municipal market). An additional $4.5 billion were considered distressed compared to only $1.4 billion of defaults in 2019 and an additional $1.7 billion that were distressed. Of the 2020 defaults, 53% were issuers in the healthcare industry, and 29% were deals related to special development purposes. So far in 2021, over half the defaults are once again in the health care industry. Notably, none of the defaults in 2020 or 2021 were general obligation or essential purpose revenue bonds.

The positive news generally seems to outweigh the negative, but investors should not let their guard down yet. General obligation bonds and essential purpose revenue bonds continue to prove resilient, but other types of revenue bonds remain vulnerable. ■

Dana Sparkman, CFA, is senior vice president/municipal analyst in The Baker Group's Financial Strategies Group. She manages a municipal credit database that covers more than 150,000 municipal bonds, providing clients with specific credit metrics essential in assessing municipal credit. Sparkman earned a bachelor's degree in finance from the University of Central Oklahoma, Edmond, as well as the Chartered Financial Analyst (CFA) designation. Contact: 405/415-7223, dana@gobaker.com.

Exhibit One

American Rescue Plan Funds for States Compared to Actual Change in State Revenue from 2019 to 2020



Source: U.S. Census and Tax Foundation

Patti Tobin, Producer, Financial Practices Division, Community BancInsurance Services, A Gallagher Company, Springfield, IL

REGULATORY OVERSIGHT INFLUENCE ON INSURANCE

Successful financial regulations prevent failure, maintain stability, protect customers and investors, and ultimately instill public confidence in the nation's financial system. Let's start by clarifying the function of key players.

The Federal Deposit Insurance Corporation **(FDIC)** is an independent agency created by Congress to insure deposits up to $250,000, examine and supervise financial institutions for safety, soundness and consumer protection, and manage receiverships.

The **Federal Reserve** supervises and regulates many banking institutions because it is the federal regulator for bank holding companies.

Illinois' favorite son, President Abraham Lincoln, signed The National Currency Act in 1863, establishing the **Office of the Comptroller of the Currency,** which is charged with the responsibility of organizing and administering a system of nationally chartered banks and a uniform national currency.

The mission of the Illinois Department of Financial and Professional Regulation **(IDFPR)** is to charter or authorize and supervise state-chartered commercial banks, state-chartered savings banks, electronic funds transfer systems and their information systems, in order to assure the safety and soundness of such institutions in compliance with applicable laws and regulations for the benefit of the public.

Regulatory oversight is one of the many commonalities between the banking and insurance industry. For community banks, it is important to note that those with regulatory orders in place may see restrictions in regulatory coverage. These are more prevalent than in the past few years, with some insurers adding full exclusions and others writing sub-limits and including defense-only coverage. However, community banks continue to enjoy the most flexibility over other commercial insureds.

Regulatory officials are more than aware of the rise in ransomware attacks across the U.S. and increases in carrier-reported losses, leaving the cyber insurance market with a never-before-seen inflection point in the last year. Significant rate increases have consistently ticked upward in the past several months. Reduction in coverage and capacity are commonplace. Keen underwriting focus is on MFA controls. Regulators are also putting a spotlight on these very exposure issues.

There are many things to fear out there, but right now, cyberattacks are high on the list for many bankers and businesses. Recent mega attacks have caused huge, far-reaching ripple effects on infrastructure and people, especially small to mid-size businesses. Smaller organizations are

Continued on next page...

often less prepared, lacking in resources, expansive technology protections or specialized education for employees.

Not so many years ago, exams did not include an in-depth evaluation of cyber coverage by regulators. We can't summarize that way anymore. Rather, they encourage bank officials to **watch the exclusions** which can severely limit the claims that might get paid. Exclusions might rule out employee error, software that has not been properly patched, old hardware, breaches initiated by third parties, or other cyber-related situations.

Meet the specific policy demands, which may require insureds to satisfy certain standards of updating their systems, maintaining redundant files, timely reporting of claim incidents, etc. Otherwise, the policy may be voided.

Confirm employee error is covered. The human factor poses the biggest security threat. Bad actors are increasingly using social engineering to gain access or get unsuspecting employees to release funds. Not all bond policies include social engineering agreements and/or endorsements. Every community bank should desire protection for the intentional misleading of an employee through an electronic, telefacsimile, telephone or written instruction (via email) received by such employee.

Check on third-party intrusion coverage. Ask if intrusions initiated through third-party vendors are included in the policy. Finding access can be through these parties; not the organization that ultimately suffered the loss. Regulators AND insurers are aware of this. Depending upon the policy, access through "pre-approved" vendors to the insured may be covered, especially if the vendor can show they have their own cybersecurity procedures in place.

Coverage is always dependent upon the specific details of the claim/loss event! It is not unusual for regulatory examiners to specifically ask if wires are covered and the specific limit amount. Some are even more detail-oriented by asking about deductible/retentions to assess the management of the risk.

Know the definition of "computer system," "service provider" and any "cloud service provider." Typically, a service provider includes only organizations that are signatories to a direct service-level agreement to which the insured directly pays for the agreed-upon services.

Community banks, regulators and insurers are continuing attempts to operate under the paradox of a "don't ask; don't tell" policy on the subject of **marijuana-related businesses.** We all hoped and secretly expected this subject to be resolved by now under the former and current White House administrations, Congress and Senate. Hopes are fading while still attempting to launch a broader initiative to legalize marijuana. People are looking to decriminalize marijuana use FIRST, before enacting a pot banking bill. Some lawmakers say it would be a mistake to support legislation that only benefits businesses without ending drug enforcement. **Any** legislation requires 60 votes in the Senate.

The SAFE Banking Act was intended to prohibit federal banking regulators from penalizing banks for providing banking services to cannabis businesses in states where marijuana is legal. We still need to remove the prohibition of cannabis at the federal level to avoid exposure of wrongful act allegations against community banks' boards of directors. The "rub" as it stands today is that directors' and officers' professional liability will not indemnify for any intentional criminal act. This conflict will remain between state and federal law when it comes to banking cannabis businesses and the many vendors and suppliers supporting those businesses.

So far, 36 states and four territories have authorized the use of marijuana for medical purposes, and 17 states have authorized it for recreational use. But marijuana is still considered a prohibited substance under the federal Controlled Substances Act, and banks that provide services to cannabis businesses can be penalized under federal money laundering laws. Insurers remain reluctant to insure said community banks until this conflict is resolved. Some are more open to depository accounts versus lending to cannabis-related accounts. And, that, my friends, brings us back to where we were two years ago — nothing's changed! ■

Patti Tobin, CIC, insurance advisor, area financial institutions director, Community BancInsurance Services, A Gallagher Company, the exclusively-endorsed insurance representative of CBAI/CBSC. 217/414-4485 or patti_tobin@ajg.com.

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CDD: Developing Tomorrow's Community Bank Leaders

Bob Stachowski, CDD Chairman and Loan Officer, The First National Bank of Sandoval

There is an old African proverb that says, "If you want to go fast, go alone; if you want to go far, go together." In today's world, it certainly is easy to feel isolated, especially when you're young and starting your professional career. You don't quite yet have the experience of your coworkers, the knowledge of your superiors, or the skillsets of your executives. Hopefully, you have the full support of all of them, and you are part of a great team. But there's one extremely valuable tool you can't acquire within the four walls of your bank: a powerful network.

"Networking" is not just a word that was beaten into my head in business school and then quickly forgotten. It isn't just a term that teachers and speakers say countless times in their presentations so students can bet the over/under on how many times they'll say it. Yet, for some reason, no matter how many times we hear the word "networking," we ignore it. We cringe at the mention of the word as if it's the only thing worse than washing dishes. We never seem to take advantage of the opportunities that could come from something as simple as a greeting and a handshake.

I may be young (to some), and I may be naïve, but I firmly believe that being a part of a growing group of like-minded, similarly aged individuals, all aspiring to become the best in their profession, who share thoughts, ideas, and learn from each other's experiences, is such an invaluable tool and something so powerful that I can't fully put it into words without this becoming my first novel. But why am I, a 36-year-old lender at The First National Bank of Sandoval, preaching to the readers of *Banknotes* about networking? Because it is one of the many advantages, if not the biggest advantage, of joining a tremendous group of young bankers known as the Career Development Division of CBAI.

The Career Development Division (CDD) was formed in 1992 to help encourage and motivate the young bankers that recently graduated from the Midwest School for Community Bankers, now known as the Community Bankers School (CBS). First known as the Young Bankers Division (YBD), it was established to help the young graduates stay engaged and stay in touch with each other after they returned home to their respective banks. It was also founded to help advance the education

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and professional skills of the younger bankers by hosting several seminars throughout the year, with many of them geared toward teaching leadership and management skills: skills that are not easily learned or acquired just by going to work every day. It was formed nearly 30 years ago to get the most out of the talented young bankers entering our great profession, and its mission remains the same today.

You see, we younger bankers are not just a group of partying, smart phone-carrying, Facebooking, Snap-Chatting, Instagramming kids that want to work from nine to five and go home and watch Netflix. We are the ones who are eager to learn and follow in the footsteps of the people that made community banking what it is today. We are the ones absorbing information like a sponge so we can succeed while trying to balance starting our careers with starting our families. We are the ones full of untapped potential, just waiting for the chance to show the world what we can do. We want to make our CEOs proud they chose to hire us. We are the future of community banking, and we take that role very seriously. We want to do absolutely everything we can to help prepare us for the moment we are called upon to lead others and our institutions. We also realize that we can't do it alone.

We want to better ourselves, obviously, but more importantly, we want to better each other. We want to encourage each other and watch our colleagues grow into leaders as well. As Jim Stovall said, "You need to be aware of what others are doing, applaud their efforts, acknowledge their successes and encourage them in their pursuits. When we all help one another, everybody wins." That is the heart of the CDD's mission. After all, we are called the Career Development Division, and our goal is to do exactly what our name says: develop careers.

We also want to better our institutions. CDD has donated more than $40,000 to CBAI's BancPac and more than $50,000 to CBAI's Foundation for Community Banking scholarship program over the years. One of the goals of CDD is to support the association's initiatives and help in the continuation of its success.

To help encourage younger bankers to join the CDD, CBAI offers CDD members a 10% discount on all CBAI one-day seminars and a $100 discount on the full registration for the annual CBAI convention. Every year, the CDD hosts the Spring Conference and Fall Meeting that are tailored to CDD members. To ensure that members are well-informed, they also receive *Banknotes*, CBAI's bi-monthly magazine, which includes political issues, laws, regulations and CBAI activities, as well as products and services available through CBSC. They also receive News from the Front, CBAI's governmental relations newsletter, which provides timely information on the political climates in Springfield and Washington, D.C.

I have been in banking for seven years now, and I've been lucky enough to be a part of CDD for four of them. I was fortunate enough to have a former CDD Chairman as my bank's president and CEO, who encouraged me to join CDD and follow the same path. I am

forever grateful that he did because it not only helped me grow as a banker but as a person, as well. The skills I have learned in the CDD seminars will stay with me forever, and I hope to have long-lasting friendships with several people I've met within this group. From instructional classes in the day to sharing personal stories with friends in hotel lobbies well past midnight, the experiences I've had will always be special to me, and I look forward to many more of them in the years to come. I'm happy that I've been fortunate enough to be a part of this group, let alone be chosen to represent this group as chairman for the year. It has truly been an honor and a privilege to help lead a fine group of such talented people.

For current and past members, especially past and present board members, group directors, and chairmen, I sincerely thank you for the time and dedication you've already donated to this group. Your effort and your presence never go unnoticed. If you are not yet a member, I strongly encourage you to join CDD and be a part of a growing group dedicated to helping advance not only your career, but also your colleague's career, and to help the future of community banking.

As Amy Poehler said in her Harvard College graduation speech, "As you navigate through the rest of your life, be open to collaboration. Other people and other people's ideas are often better than your own. Find a group of people who challenge and inspire you, spend a lot of time with them, and it will change your life." It has certainly changed mine. ■

For more information on joining CBAI's Career Development Division, please contact Melinda McClelland at melindam@cbai.com.

Ads Aren't Enough to Compete with **Neobanks**

Dan Novalis, President and Owner, 2Novas Inc., St. Louis, MO

Yes, I run an ad agency and I'm saying that ads aren't enough! But there's hope!

It's tough to attract the customers you want — which for most banks these days, means millennials (who are approaching 40) and Gen Z. Even though you might have a 100-year-old brand and are well known in your community, you are still competing with neobanks, mega-banks, credit unions and non-traditional banking providers online.

That's because nearly everyone researches online these days. Eighty-nine percent of people use Google or another search engine before making a purchase decision (according to a Fleishmann-Hillard study). Yet, at the same time, a Marqueta study reports that 87% of Gen Z consumers prefer traditional banking providers. Let's say that again — *87% of Gen Z consumers prefer traditional banks.*

So what are the neobanks doing that makes them so successful, even when Gen Zers prefer traditional banks?

1. Neobanks have Table Stakes Tech

- It's easy to do business with them. Make it easy to do business with you.
- This can mean online account opening/applications, but short of that, it means a modern, mobile-enabled website where information is easy to find and fees are transparent. Offer value-added freebies, like 1:1 consultations, help make a switch and more — use your imagination here. (We often conduct brainstorming workshops to come up with out-of-the-box ideas; you can do this in-house!)
- Pull up your website on your phone — I bet you haven't done that in a long time. Keep in mind that more than 50% of your web traffic is on smartphones. If your mobile website doesn't work or is hard to navigate, you've lost their interest almost immediately.

2. Neobanks Develop Their Brand Voice

- It's not enough to say "local." This word is overused and has lost all meaning.
- Instead, ask yourself WHY being local matters, specifically to people in your communities. For instance, how do you reinvest deposits to build the community?
    - SHOW your staff building the community, on social media, in your ads and on your website. Show that you're a traditional institution, but you're easy to work with and you help your communities in a way that neobanks and megabanks never will. Make this a part of your brand.

3. Neobanks Build Trust and Nail the Pre-Customer Conversation

- Gen Zers right now are focused on long-term goals like purchasing a home, planning for retirement, and so on. They are also quite loyal.
- Choosing a bank is a big, long-term decision, and one that most consumers only do a handful of times in their life.
    - Educate prospects and existing customers alike on these big decisions — through blogs, videos, even short video ads. Don't try to sell, just educate.
    - Don't just send ad traffic to your home page (your home page is also used by current customers, so you've got a lot going on there already)! Create a separate page where you can speak just to prospects. Ask for an email and follow up with them — the more interactions you can create, the better. It can take five to seven, or more, touchpoints before someone will reach out to you on their own.

Ads are necessary to create a digital presence for your bank. Even if you're a well-known institution, the ads can still serve to remind people you exist while they're searching on Google. But the ads alone do only this — remind people you exist. To get the ROI out of your ad budget, you need to create that trust-building system behind them. ■

Dan Novalis is president & owner of 2Novas Inc., an advertising agency based in St. Louis, Missouri. Read about how 2Novas has helped banks at 2Novas.com/banks. You may also email Dan directly at dan@2novas.com.


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FASTER PAYMENTS HAVE ARRIVED — *Now What?*

Tina Giorgio, ICBA Bancard President and CEO, Washington, D.C.

Faster payments have arrived. With Same Day ACH volume growing 88 percent in the first quarter of 2021 and The Clearing House's Real-Time Payments (RTP) Network reporting technical connection capabilities for upwards of 70 percent of all demand deposit accounts in the country, we've moved beyond the preparation phase and are well into implementation.

Accelerated by the pandemic, the growth in digital and contactless payments has pushed consumer and business expectations toward the real-time movement of money.

But, how does this impact the community bank mindset for faster payments?

"There's a recognition by community banks that incorporating instant payments into their payments strategy is essential," ICBA Senior Vice President, Payments and Technology Policy and ICBA Bancard Senior Vice President of Industry Relations Deborah Matthews Phillips said. "If their customers can't receive a real-time payment, they're going to find a bank who will offer them [one]. The future is happening now."

I sat down with Deborah, who also serves as vice-chairperson of the Faster Payment Council's Board of Directors to get her take on the latest developments in this space. What follows are highlights from our conversation.

Tina: Let's talk about FedNow. The Federal Reserve has been moving quicker than we originally thought they would; it feels like every week there's a new announcement.

Deborah: I'm pleased to note that the Fed accelerated their initial timeline from 2024 to 2023, and I hope that decision was spurred by advocacy from ICBA, our state associations and our community bankers who did a tremendous amount of outreach. ICBA has always been a strong, vocal supporter of FedNow, to ensure that all community banks have access to a ubiquitous instant payments network.

A recent Fed Town Hall revealed more about the various services that they are going to roll out. Many community banks are participating in the FedNow pilot as well, which will offer valuable feedback to help the Fed determine how to best accommodate the community bank model.

Tina: Even with that momentum, a lot of community banks are having trouble deciding if they should wait for the Fed, join The Clearing House's (TCH's) RTP Network, or both. What are your thoughts?

Deborah: That's a tough question because some community banks have passionate opinions about waiting for FedNow. But I think community banks will need both. Some community banks are already jumping into real-time payments and are receiving RTP transactions while preparing to send and receive FedNow transactions. This gives community banks a chance to learn the instant payments landscape, assess operational changes needed, and shorten the learning curve for when FedNow is available.

Solution providers are beginning to offer payments hubs that provide intelligent routing of instant payments, with RTP and other payment systems today, and in the future, with FedNow.

Tina: That's a good point. So, what do you think that sort of interoperability will look like?

Continued on next page...

Deborah: There's a lot of buzz and a lot of misconceptions. People talk about interoperability and think it's connecting two networks with a technical framework, but there are a lot of ways to achieve aspects of interoperability. The fact that the Fed and TCH are in conversations and that they're both using ISO 20022 is encouraging and supports consistency in standards and processes across various networks. There's a lot more information we need before we can say we have interoperability, but I understand the Fed and TCH are working on that.

Tina: With all that in mind, where do you see the community bank opportunity for instant payments?

Deborah: Recent studies validate the importance of instant payments. There's growing demand from both consumers and businesses. According to a new study, 24 percent of consumers say they would switch financial institutions for access to instant payments.

What's more, instant payments are about more than just speed. It's really important to recognize what instant payments do for the end-users. For example, for small businesses, it's important to recognize the role of faster payments in their cash flow, which is their lifeblood.

Because instant payments are real-time, irrevocable, credit-push payments, they provide an aspect to small businesses' cash flow that helps them stay resilient.

"Recent studies validate the importance of instant payments. There's growing demand from both consumers and businesses. According to a new study, 24 percent of consumers say they would switch financial institutions for access to instant payments."

For community banks, it represents a potentially new revenue stream: One study noted small businesses indicated a willingness to pay an average of $10.50 per transaction. That represents real value both to the small business and to community banks.

Tina: What exactly are faster payments? Is it The Clearing House's RTP® system? Is it instant payments? What about Same Day ACH?

Deborah: When we were forming the U.S. Faster Payments Council, there was some debate on this topic. Instant payments is the term FedNow(SM) uses to distinguish from RTP, which is the brand name for TCH's real-time payments solution for real-time clearing and settlement, within seconds. "Faster payments" as a definition, loop in other payments with accelerated clearing, like Same Day ACH, which is not real-time or instant payments.

But it's important not to leave Same Day ACH out of the faster payments conversation. The fact that beginning in March of next year the threshold will increase to $1 million is going to drive additional use and adoption.

Tina: To that point, Same Day ACH and RTP volumes both are growing, and we're now seeing tangible use cases for faster payments. So, where are faster payments being used today?

Deborah: We're starting to see a groundswell around new use cases for real-time payments, whether it's earned wage access, gig payments, or even payroll. Some large payroll companies are now using the RTP network and lots of new use cases — some of which weren't originally anticipated.

Tina: Speaking of earned wage access, there are some industries where employees are getting paid more than once a day.

Competition — including big tech competition — is huge. But the research has shown that 37 percent of consumers said if their bank offered the same solution, they would switch providers because they still feel their bank is more trustworthy and more secure than these financial technology companies who do nothing but money movement and don't have deposit insurance.

Deborah: Your point about these alternative payment models that do not have the level of trust that community banks have is spot on. Trust is a huge consideration. There have been some negative stories in the media about some of the alternative payment models and the lack of resolution avenues for customers. That's one advantage community banks offer: customer service. When there's a problem, customers expect their community bank to help them, and they get it.

Tina: In addition to competition, I also worry about fraud. With real-time or instant payments, once it's gone, it's gone. So, the question is, do faster payments equal faster fraud?

Deborah: I don't think we're seeing a lot of fraud with RTP at this point, and I'm encouraged to hear that the Fed is building some fraud tools in the design of FedNow, and RTP has deployed some tools at the network level. But remember, it's a partnership. Financial institutions that are working with these networks also must comply with requirements to deploy fraud monitoring tools. For example, because the payments are processed instantly as irrevocable transactions, strong authentication before the transaction is executed is critical.

Fraud itself is bigger than a single payments network. All stakeholders need to work together to fight occurrences like account take over, which is not unique to instant payments, but has the potential to be a threat vector for them. Fraud is an area where we can never get complacent.

Tina: I agree 100 percent. But with so much to consider as a community bank looking at faster payments, how do they choose? What should be included in their planning strategy?

Deborah: Start by mining for metrics that matter. The reality is that there are transactions leaving community bank environments to go to alternative providers. It's important for a community bank to size up the threat that these alternative providers pose. And then, look internally and plan for how faster payments might impact their organization operationally, from a compliance and risk mitigation perspective, and understand potential new requirements from a customer support perspective. Being responsive to customers' needs in the moment is an opportunity for community banks to continue to deliver on their legacy of unparalleled customer support. ■

For more information and resources on faster payments, visit ICBA's Faster Payments Resource Center. To explore where faster payments fit in your payments strategy, leverage ICBA Bancard's Payments Strategy Assessment Tools. Tina Giorgio can be reached at tina.giorgio@icba.org.

Kasasa

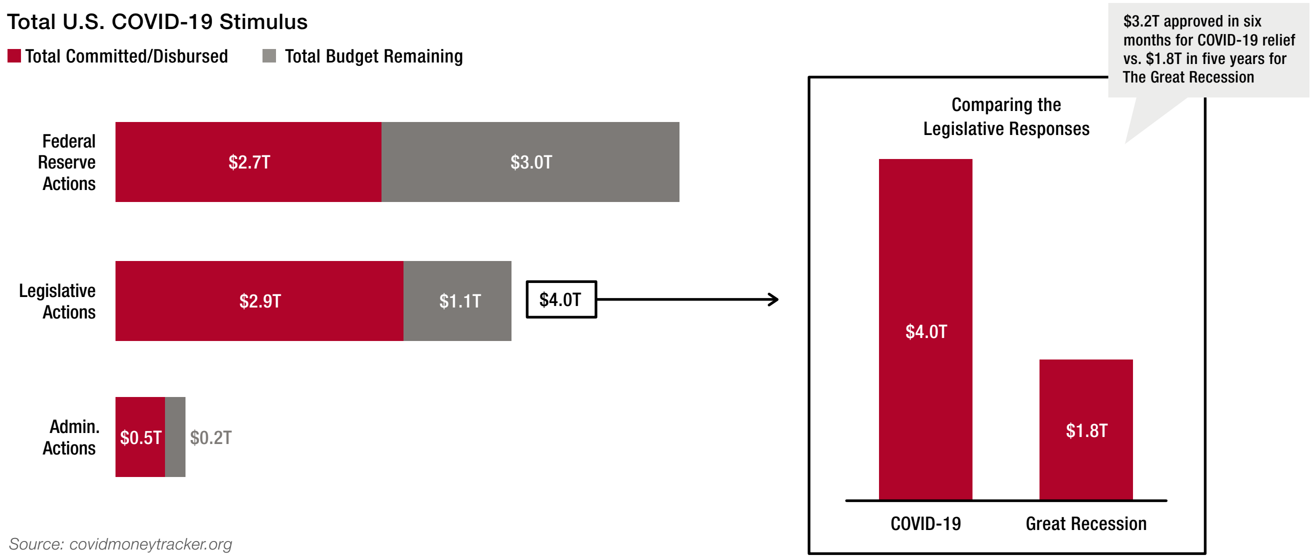
FLIP THE SCRIPT:

GROW WHEN EVERYTHING TELLS YOU OTHERWISE

2020. Just saying that might be enough. Over the past year, the economy has experienced conditions that will impact the banking industry for years to come. The recovery will occur; it's only a matter of time. But we need to consider how the community banking industry has been affected and how banks can, and should, position themselves in the long term.

Tracking the COVID-19 Money

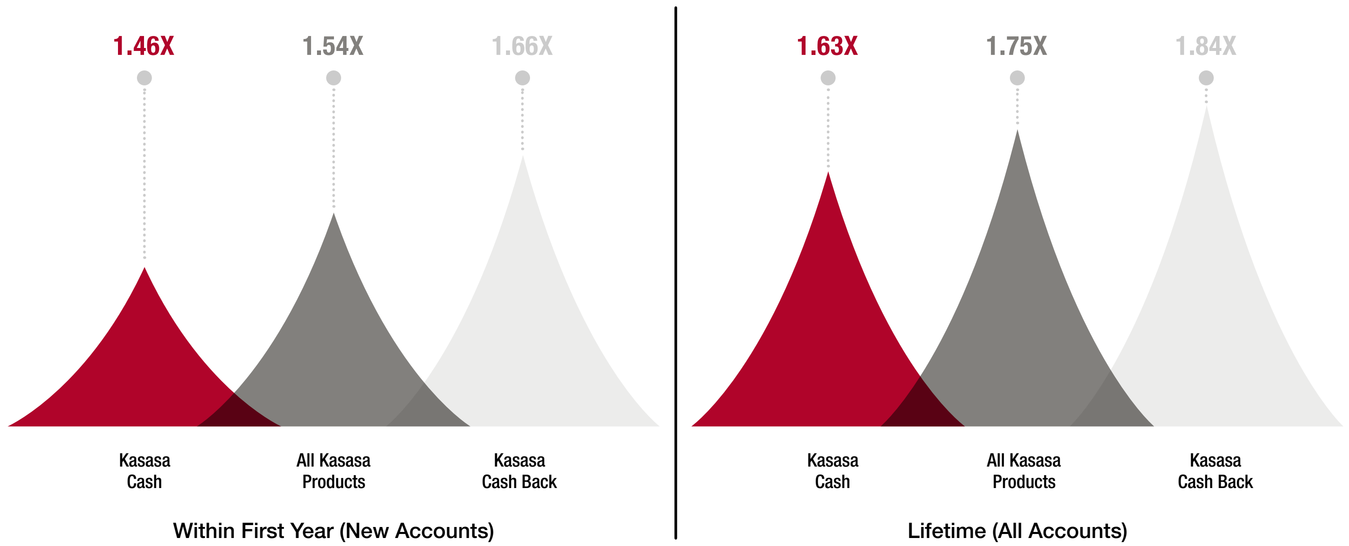
The U.S. government unleashed an unprecedented amount of fiscal and monetary support



Source: covidmoneytracker.org

Kasasa Drives Higher Loan Adoption; Earlier and Over Time

Likelihood of Loan Adoption (vs. Non-Kasasa checking accounts)



Source: Kasasa Analytics, December 2020 (n•148 Credit Unions, 150 Banks) Median Adoption of Consumer Loan Products (Mortgage, Auto, Personal, Student Loan, etc.) by product vs. Regular Checking, by institution.

DEEPER RELATIONSHIPS ACT AS ECONOMIC SHOCK ABSORBERS

The massive stimulus efforts have been effective at the macro level. Public safety precautions for COVID-19 have changed both consumer behavior patterns and branch operations. Meanwhile, neobanks, megabanks and others continue to aggressively market and provide consumers with more choice than they've ever had. The result for community financial institutions is, in a very broad categorization, a logical and practical hesitancy to seek any growth for fear of exacerbating liquidity and margin issues.

Growth, or as you might say "deposits," shouldn't be four-letter words. Growth can come through relationships that encompass both sides of the consumer relationship (loans and deposits). These more engaged relationships provide more profit, more non-interest income, and more flexibility to weather economic conditions. Portfolios built on these relationships strengthen balance sheets and overall resilience to economic headwinds.

PULLING BACK THE VEIL ON PROFIT ATTRIBUTION

Transactional engagement and its impact on non-interest earnings are two of the key reasons most executives prefer transactional core deposits. What truly changes the perception of a deposit from a cost center into a profitable relationship is the examination of "what else" a relationship brings to the table.

CONSUMER DEPOSITS THAT DRIVE LOAN ADOPTION

Kasasa reviewed nearly 300 community financial institutions and over 1.2 million new checking accounts to measure the depth of relationships that begin with a checking relationship.

The analysis found that Kasasa relationships were 1.54x as likely as non-Kasasa relationships (see chart) to also have a directly related consumer loan in the first year the account was open. Kasasa Cash Back relationships were 1.84x as likely as non-Kasasa relationships to have a loan over their entire observable life. Note that Kasasa checking products reward consumers based on transactional behaviors, not loan relationships. Thus, the loan adoption propensity was a result of those transactional consumers.

HOW TO MOVE FORWARD IN THIS NEW ENVIRONMENT

It's easy to understand why most executives oversimplify the role deposits play on a balance sheet, but the data reveals a critical nuance. Engaged deposit accounts aren't just a liability, they drive the type of holistic, sustainable growth that community financial institutions need.

Ask yourself, "What are my products doing to drive engaged relationships?" Some of the data can be found in call reports and peer comparisons, and some of it will require analysis of core data.

Armed with the right kind of data and perspective on what a desirable account holder looks like, you can position your institution for ongoing success, whatever direction the economy goes. ■

This article is an excerpt from Kasasa's Flip the Script whitepaper. You can read the full version for free at www.kasasa.com/flip-the-script.

2021 Group Meetings Wrap-Up

The **2021 Spring Group Meetings** attracted more than 500 bankers from nearly 120 banks, as well as representatives from associate member firms, guests and staff, for a total attendance of nearly 800 individuals. At even-numbered Group Meetings, CBAI members elected Group Directors to represent them during a two-year term. The CBAI Group Directors for those groups are:

Group 4 — Alan Stremlau, Illini State Bank, Oglesby

Group 6 — Rick Klinedinst, MidAmerica National Bank, Canton

Group 8 — Carol Jo Fritts, First Neighbor Bank, N.A., Toledo

Group 10 — Kevin Day, State Bank, Waterloo

Group 12 — Travis Clem, SouthernTrust Bank, Marion

Appreciation goes to the following CBAI associate member firms that served as sponsors. Their generous contributions supported the more than $1,500 in golf and door prizes at each event.

Three-Star Sponsors

The Baker Group, Oklahoma City, OK

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FBX BankTrends, Cambridge, MA

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Ironcore, Inc., Onalaska, WI

IZALE Financial Group, Elgin, IL

Ncontracts, Brentwood, TN

Quad City Bank & Trust Co., Davenport, IA

Regency360, Sherman, IL

Welch Systems, Inc., Peoria, IL

Wipfli LLP, Sterling, IL

The following firms stepped forward as Golf Tournament sponsors at CBAI's Group Meetings:

Golf Tournament Sponsors

Apiture, Wilmington, NC

The Baker Group, Oklahoma City, OK

Community BancService Corporation, A Gallagher Company, Springfield, IL

CBAI 401(k) MEP, East Peoria, IL

College Ave Student Loans, Wilmington, DE

Econocheck, Stockbridge, GA

FBX BankTrends, Cambridge, MA

Federal Home Loan Bank of Chicago, Chicago, IL

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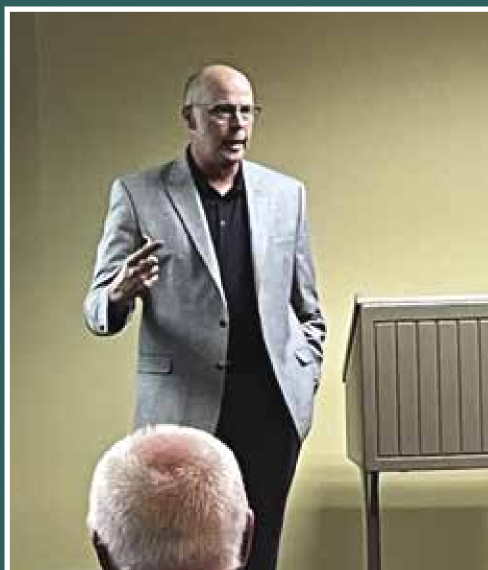
Regency360, Sherman, IL

SHAZAM®, Johnston City, IA

Welch Systems, Inc., Peoria, IL

Wolters Kluwer Financial Services, Sammamish, WA ■



U.S. Treasury Awards Grants to CDFIs in Illinois Working to Support Small Businesses, Including Allies for Community Business

Jackie Blair, Director of Marketing and Communications, Allies for Community Business

On June 15, 2021, Vice President Kamala Harris, Treasury Secretary Janet Yellen, U.S. Senator Mark Warner, and U.S. Representative Maxine Waters awarded $1.25 billion to 863 community development financial institutions (CDFIs). The grants were disbursed through the Treasury's CDFI Rapid Response Program to provide CDFIs much-needed capital to continue their work as financial first responders. CDFIs across the country have worked tirelessly throughout the pandemic to respond to the needs of small businesses, particularly those in underserved communities.

The CDFI Rapid Response Program grant funds support nonprofits, banks, credit unions, loan funds and venture capital funds on their work to offer financial products, financial services and development services to their clients.

One recipient of the CDFI Rapid Response Program grant is Allies for Community Business, formerly known as Accion Serving Illinois & Indiana. Allies for Community Business (A4CB) provides the capital, coaching and collaboration entrepreneurs need to grow great businesses in their communities. As a CDFI located on Chicago's West Side, A4CB prioritizes Black, Hispanic/Latinx, women, and low-income entrepreneurs throughout the Chicagoland area and beyond.

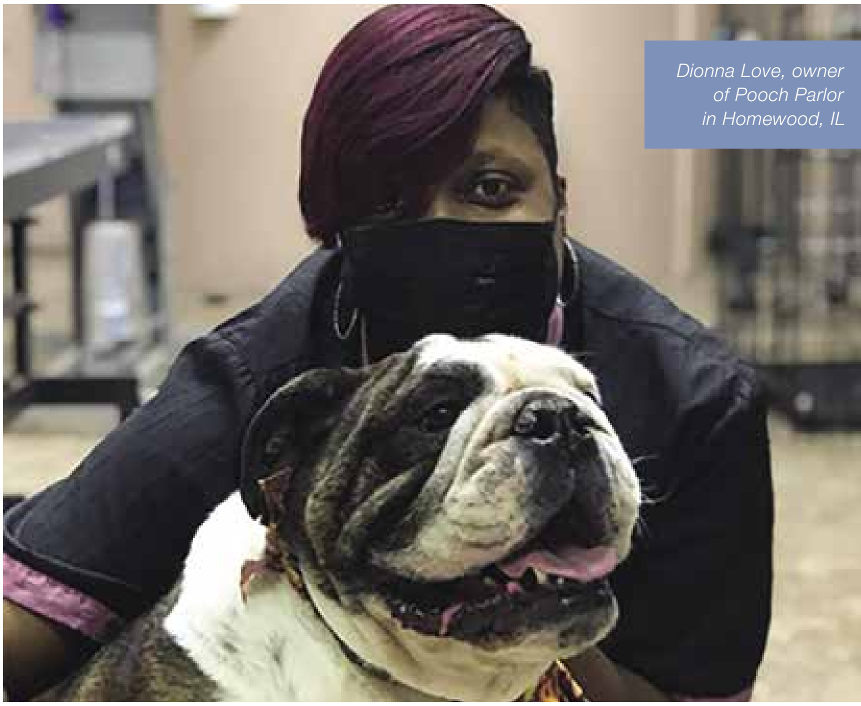
A4CB offers loans between $500 and $100,000 to early, emerging and established businesses in Illinois and Indiana. A4CB also frequently manages grant programs with partners who share their mission to provide funds to business owners who will put those dollars to good use in their communities. In addition, A4CB provides free one-on-one coaching to anyone who wants to start or grow a business. A4CB also offers licensing and procurement services as well as kitchen space at The Hatchery, which is the 67,000 square-foot state-of-the-art incubator that they co-own and call home.

Rowan Richards, A4CB director of community business, meets with two entrepreneurs.

"Allies for Community Business moves money from where it traditionally is to where it is most needed today," said Brad McConnell, CEO of A4CB, "and we will continue to seek capital from governments, banks and foundations so that we can provide more loans and grants to underserved businesses throughout Illinois."

The grant funds will allow A4CB an opportunity to provide more capital, coaching and collaboration to entrepreneurs in underserved communities, such as Dionna Love. Dionna is the owner of Pooch Parlor, a dog grooming salon located in Homewood, IL. Because of the COVID-19 pandemic, Dionna temporarily closed her business and lost a month and a half of her income, which impacted her business greatly. Dionna stated, "Now, the number of dogs I groom in a day is cut almost in half, because of the new safety precautions and protocols that I have put in place in my salon." With A4CB's help, Pooch Parlor received a loan through the Illinois Small Business Emergency Loan Fund, and Dionna used the funds on payroll, rent and utilities to help keep her business afloat during the height of the pandemic.

Another small business that has worked with A4CB to receive loan capital is Shawn Michelle's Homemade Ice Cream. Born and raised on Chicago's South Side, Yahya Muhammad first tried



Dionna Love, owner of Pooch Parlor in Homewood, IL

homemade ice cream after a baseball practice in Avalon Park. The unmatched taste of the fresh, homemade treat remained with him through college, where he began to experiment with his own recipes and sample flavors with his fraternity brothers. In 1998, he opened his first business called Jabril's Supreme Cream in Chicago's Chatham neighborhood. Tragically, just one year after the business opened, Yahya's sister died in a car accident, and he decided to step back from the business. A few years later, he relaunched as Shawn Michelle's Homemade Ice Cream, named after his beloved sister. Over the next decade, Yahya built up a strong customer base, selling out of ice cream trucks and several small storefronts on the far South Side. In March 2020, when the COVID-19 pandemic hit, revenues plummeted. To cope with the shock, Yahya worked with A4CB to receive an emergency loan from the Chicago Small Business Resiliency Fund, which was critical in covering his payroll and ingredient costs. Looking ahead, Yahya plans to open new locations nationwide in order to create more memories with customers who can't get enough of his old-fashioned flavors.

A4CB has also recently provided a small business loan to Nicole Jordan-Reed, owner of Nicole Jordan Catering, a full-service catering company located in McKinley Park. A majority of Nicole's business comes from catering events for nonprofits, universities and corporate clients, so her business was particularly hard hit by the pandemic. "Event cancellations began coming in the week of March 9 and by March 13, pretty much every event on our calendar through June had been canceled or postponed," Nicole said. After evaluating a shift to meal service, she decided that it would be best for the health and safety of her employees to temporarily shut down. Nicole had some small catering jobs that were handled on her own, but she mostly focused on applying to grants and emergency loans. She worked with A4CB to receive a Chicago Small Business Resiliency Loan, which was used to help with her commercial rent, insurance and vehicle payments. In addition, the funds supported staff wages, online ordering capabilities and marketing. ■

Jackie Blair is director of marketing and communications for Allies for Community Business. She can be reached via email at jblair@a4cb.org or by phone at 312/924-2160.

CBAI AG LENDERS' SCHOOL

July 27–29, 2021

The three-day CBAI Ag Lenders' School curriculum was developed to meet the training needs of agricultural lending institutions. Sessions used practical examples to demonstrate concepts focused on issues critical to successful agricultural lending. Speakers used a balance of presentations, exercises, case studies and a simulation where participants worked in teams while still using social distancing protocols to provide a quality learning experience.

Leading this school was Freddie L. Barnard, professor emeritus of agricultural economics at Purdue University, West Lafayette, IN. Emmet Fairfield, partner with Howard & Howard, presented "Loan & Collateral Documentation for Ag Lending," while John Gehrke, farm loan chief at the Illinois Farm Service Agency, USDA, presented the session "FSA Programs & Perspectives." In its third year, the CBAI Ag Lenders' School attracted 18 attendees.

Attendees:

Madison Adams, Farmers State Bank of Hoffman
Matt Eickert, BankORION
Mary Garro, SouthernTrust Bank, Marion (Vienna)
Chasidy Greenwalt, Fairfield National Bank
Clinton Hood, The FNB Community Bank, Vandalia
Tanner McLain, Quad City Bank & Trust Co.
Jordan Mclane, Citizens State Bank, Lena
Austin Pletsch, The Gerber State Bank, Argenta
Eric Pompeo, Tompkins State Bank, Avon (Abingdon)
Lauren Robison, The FNB Community Bank, Vandalia (Greenville)
Justin Rubin, The Peoples State Bank of Newton
Shannon Scheffel, CNB Bank & Trust, N.A., Carbondale (Glen Carbon)
Sean Seibring, Citizens Bank of Chatsworth
Brandon Shaon, First Neighbor Bank, N.A., Toledo
Christine Smith, The First National Bank in Ava
Stephanie Nicole Wankerl, Farmers National Bank, Prophetstown
Sarah Wiersema, The First National Bank in Amboy ■

CDD SPOTLIGHT

QUESTIONNAIRE

Cole Stenzel

CDD Group Director & Senior Vice President/Business Development Officer, Buena Vista National Bank, Chester

What do you find the most challenging about your job?

We, as community bankers, always want to do what is in the absolute best interest of our clients. In a community bank, these clients are also known as our neighbors, our family and our friends. It is challenging when legislators enact ever-changing regulations that affect our ability to serve our clients the best way we know how.

What do you find most rewarding about your job?

I have the privilege to consult and assist our clients with some of the most important decisions in their lifetime, whether it be a new home purchase, a new business venture, a business expansion, etc. It is very gratifying to see the people that we have helped achieve their dreams and be successful in life.

How did you get involved with CBAI?

Buena Vista National Bank takes great pride in our heavy involvement with CBAI. I have personally been involved with CBAI since 2013. My very first introduction to CBAI was a Career Development Division (CDD) event that had a Jimmy Buffet cover band at the social. Jimmy Buffet, Margaritaville and banking — what could be better? CDD is a great way to create a networking group of non-competitor colleagues that you can call on for advice and direction. I recommend CDD to anyone considering joining.

What is something most people don't know about you?

I am a die-hard Cardinals fan (sorry to all of the Cubbie fans up north). I also love to vacation (mainly to the beach) and enjoy spending time with my nieces and nephew. Much to the surprise of many of my closest friends, I have also become an avid hunter over the last several years. I use the term "avid" loosely.

What is your favorite initiative that your bank has implemented to support your community?

Buena Vista National Bank is a major contributor to all of our markets' community programs and events both monetarily and from a volunteer standpoint. Buena Vista National Bank is a foundational investor of the Randolph County StartUp program. I currently serve as the chairman of the Randolph County StartUp's board of directors. StartUP (formerly CEO) is an entrepreneurial class for high school juniors and seniors that is wholly funded by local businesses. It is an invaluable program that our local students benefit from greatly, and I am very proud and honored to be a part of the success that we have been able to accomplish.

If you weren't in banking, what would you be doing, and why?

I am still waiting on the call from the St. Louis Cardinals that they need a pitcher, but I think my wait will continue in perpetuity. In all seriousness, if I were not a community banker, I think I would be a real estate investor and an attorney. I currently have a real estate portfolio, so I would expand on that, and being an attorney would help me in that endeavor. ■

CBAI FOUNDATION

Holding Cardinal/Cub Game Bundle Raffle

Let's settle this, once and for all. It's the debate to end all debates. The rivalry between the St. Louis Cardinals and Chicago Cubs has divided our state and has pitted banker against banker for decades. The "who's the better team?" dispute can be decided on the diamond. The real question is, who has the better fans?

Both teams have always said their fans are the greatest. So how can we ever prove which team's fans are the most loyal and supportive? CBAI's Foundation for Community Banking has the answer. If you know that YOUR team has the better fans, then it's time to put your money where your mouth is. Show how much you support the Cubs or Cardinals by purchasing raffle tickets from the Foundation in honor of your team. Whichever team's fans raise the most money for the Foundation wins the age-old debate!

On each raffle ticket purchased, the buyer can indicate which team they support. Foundation staff will keep a tally of the money brought in for each team. The raffle winner and the winning team will be announced on Saturday at CBAI's 47th Annual Convention & Expo in Chicago. (All raffle tickets purchased will be included in the drawing, regardless of which team raises more money.) The winner of the raffle receives four tickets to the Cubs vs. Cards match-up during the last series of the 2021 season, plus an awesome prize package! The winning team's fans get bragging rights **FOR-EV-ER.** (Some of you are hearing Squints Palledorous from The Sandlot right now.)

Let's be honest. Late July was rough for Cub fans, as painful, last-minute deals were inked just shy of the trade deadline. At the time of this article's printing in August, neither team was within 10 games of first place in the National League Central. But we know you aren't fair-weather fans, so this is the perfect time to demonstrate your loyalty.

Neither team may be in the playoff hunt when they meet up for the final series of the regular season. Or maybe one, or both, will claw their way back into contention. But regardless of potential playoff bids, regardless of spoiler opportunities, regardless of all else, somehow matchups between the Cardinals and Cubs always seem to be hard-fought, adrenaline-pumping, lead-swapping, you-better-watch-'til-the-end epic events that do not disappoint. That's why Cardinal and Cub fans can agree, if only on one thing ever — it's the greatest rivalry in baseball.

Cards vs. Cubs Game Bundle

- Four tickets to the St. Louis Cardinals vs. Chicago Cubs game on Saturday, October 2, 2021, at 6:15 p.m. at Busch Stadium in St. Louis, MO (Section 162D, Row L, seats 1-4)
- Overnight stay at the Hyatt Regency at the Arch (double room)
- $400 Visa gift card for food, drinks, souvenirs, etc.

Game tickets were donated by ***Sheila Burcham, Community Trust Bank, Irvington****, and the hotel stay and spending money were provided by* ***College Ave Student Loans.***

Tickets can be purchased for $20 each or three for $50.

It's a no-lose scenario! By purchasing raffle tickets, you can win an amazing game bundle valued at $1,350, show your support for your favorite team, and most importantly, help a great cause! All ticket sales go directly to the Foundation for Community Banking scholarship fund.

This year, we are excited to celebrate the 25th anniversary of CBAI's Foundation for Community Banking. Established in 1996, the Foundation has bestowed an incredible $550,000 in scholarships to deserving college-bound students since its inception. Additionally, more than $70,000 has been awarded to CBAI member bankers to attend the Community Bankers School. The Foundation annually offers three types of scholarships, with more than $40,000 allocated to students every year. A total of 31 annual scholarships are provided to high school seniors statewide through our essay contest, to the children and grandchildren of community bankers and to Community Bankers School attendees.

We want to continue the success of the Foundation and ensure that we can maintain the 31 annual scholarships for many more years to come. In order to do that, we need your help!

Yes, we understand that not everyone is a Cardinal fan or a Cub fan. But maybe you dislike one of those teams just a little. Or maybe you want to honor your favorite team with a write-in vote. The important thing is, the Foundation wins with your support.

Can't make it to the game that weekend? Don't let that stop you from purchasing a ticket. If you win, you can change the hotel reservation to another date, give away the tickets to a family member, friend, colleague, or customer, and still walk away with $400.

This is a perfect opportunity for you to support the Foundation during its 25th-anniversary campaign! **By purchasing raffle tickets, you are making a tax-deductible donation to the Foundation.** All individuals, banks and firms supporting the Foundation will be recognized in *Banknotes* magazine.

Which team's fans can FINALLY prove that they're the best by raising more money for the Foundation for Community Banking scholarship program? Let's find out!

Ticket sales are open to anyone at your bank or associate member firm, so invite your full staff to participate! **You do NOT need to be present to win.** Tickets may be purchased in advance by emailing Valerie Johnston at valeriej@cbai.com. Tickets will also be sold at CBAI's 47th Annual Convention & Expo at the Foundation booth in the Exhibit Hall. ■

PLEASE VISIT THE FOLLOWING CBSC BUSINESS PARTNERS IN THE EXHIBIT HALL

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THE BAKER GROUP

CBAI 401k MEP (MSTC)

CBAI Enhanced Email Services

CBAI Web Site Hosting

CBIS a Gallagher Company

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IRONCORE

IZALE Financial Group

Kasasa

Ncontracts

Regency360

SHAZAM®

The Stone River Group

Welch Systems, Inc.

Wolters Kluwer

CBAI's

Community Bankers School

Graduates 25 Bankers

CBAI has announced that 25 individuals graduated in July from the Community Bankers School (CBS) at Illinois Wesleyan University in Bloomington. CBS, which consists of two, one-week sessions over a two-year period, allows community bankers to immediately contribute to the overall success of their banks and provides the knowledge necessary to get ahead. A comprehensive program designed for today's community bank professional, CBS features a nationally recognized faculty, an updated curriculum and timely topics.

Topics covered during an intense week for Class I, which included 39 participants, were compliance, accounting, commercial and consumer loan documentation, collections, bank security, auditing, investments and technology, while Class II focused on management aspects. The School's benefits extend beyond the classroom with outside case studies, an invaluable student notebook with supplemental materials, as well as networking opportunities with peers, instructors and senior bankers. Students gain background and experience for broader responsibilities and greater effectiveness, as well as insight into a community bank's overall operations responsibilities. ■

2021 Graduates: *(alpha order by last name)*

Amanda Ballard, German-American State Bank, German Valley

Brian Blok, Community First Bank of the Heartland, Mt. Vernon

Josh Dickey, The First National Bank in Tremont

Jana Emmons, Ipava State Bank, Lewistown

Ethan Engele, The First National Bank in Carlyle

Michael Fehrenbacher, TrustBank, Olney

Abbey Gholson, First Bank, Carmi

Marsha Johnston, Legence Bank, Eldorado

Jamie Jones, The Clay City Banking Company

Drew Keller, State Bank of Graymont

Kelsey Kendall, Bradford National Bank, Greenville

Michelle Marhanka, The Village Bank, St. Libory

Ross Martin, First Robinson Savings Bank

Rhys Meiner, Bank of Pontiac

Morgan Milam, First Federal Savings & Loan Association of Central IL, S.B., Charleston

Andrew Mitchell, State Bank of Whittington, Benton

Lori Phillips, MidAmerica National Bank, Canton

Randi Harrison, Flanagan State Bank

Kathy Ruholl, Dieterich Bank, Effingham

Ellyn Schoenholz, First State Bank, Mendota

Michelle Swanson, Morton Community Bank

Jason West, First Bank of Manhattan

Sarah Will, First Neighbor Bank, N.A., Toledo (Mattoon)

Delaina Zellers, German-American State Bank, German Valley

Lisa Ziegler, Rocky Mountain Bank & Trust, Colorado Springs, CO

Help Us Celebrate the Foundation's 25th Anniversary!
25th
CBAI
Foundation
For
Community Banking
Anniversary
Please donate to the CBAI Foundation's 25th Anniversary Campaign. Contact Valerie Johnston at valeriej@cbai.com for more information.

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2FA
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Regulation of Interest and Account Service Charges

COMPARABLE FOR NATIONAL AND STATE BANKS

Jerry Cavanaugh, CBAI General Counsel, Springfield, IL

Subsection (11) of Section 5 of the Illinois Banking Act ("Act") is referred to as the "wild card" or "parity" provision on the Act because it conveys to state-chartered banks powers and authorities possessed by national banks even if no other Section of the Act or any other Illinois law expressly grants to state banks those national bank-equivalent powers.

One area where reliance on Section 5(11) is not necessary is the regulation of loan interest and fees and of deposit account service charges. For deposit account service charges, the "wild card" is not needed to equalize state banks' authority for establishing bank account fees and service charges because Section 5e of the Act has already largely plagiarized Section 7.4002 of the Office of the Comptroller of the Currency's (OCC's) regulations governing account service charges of national banks. Neither Section 5e of the Act nor OCC Section 7.4002 establish limits on account fees or charges, but they set forth identical criteria that banks should take into account when establishing such charges: (1) the administrative costs incurred by the bank; (2) a reasonable profit margin; (3) deterrence of misuse/abuse by customers of account privileges; (4) the competitive position of the bank in its market consistent with the bank's business plan and marketing strategy; and (5) the always-present and always-vague maintenance of the safety and soundness of the bank.

Moving on to loan interest charges and fees, Section 5e of the Act de-regulates those amounts. In fact, Section 5e begins:

> *"Notwithstanding the provision of any other law in connection with extensions of credit…"*

It goes on to state that a state bank can "contract for" interest and loan charges in any amounts. Therefore, whatever amounts are contractually agreed upon as evidenced in the note and closing documents are lawful. Although Section 5e seems to add a condition by specifying that interest and fee amounts are "subject to subsection (1) of Section 4 of the Interest Act" and are limited "for extensions of credit secured by residential real estate, which shall be subject to the laws applicable thereto," those apparent conditions on the de-regulation of interest and fees have always mystified me because Section 4 of the Interest Act explicitly says that a state-chartered bank can collect "interest and charges" in any amounts contractually agreed to by the bank and the borrower (essentially, a repetition of, rather than a condition imposed upon, the de-regulation in Section 5e). To the extent that Section 4 of the Interest Act superficially imposes a 9% interest rate cap for non-bank loan transactions (i.e., limiting to 9% the amount of interest that my dad can charge me when I borrow from him), there is a list of 14 exemptions from that 9% cap,

Continued on next page…

one of which applies to loans secured by a mortgage on real estate. Thus, the language in Section 5e of the Act suggesting that its de-regulation of interest rates and loan fees are subject to limitations in Section 4 of the Interest Act and/or on loans secured by real estate is referencing no conditions or limitations at all.

Another field in which interest rates and loan fees have been totally de-regulated is the field of revolving lines of credit. Section 4 of the Illinois Financial Services Development Act (IFSDA) explicitly states that "under a revolving credit plan…and in connection therewith" a financial institution is entitled to "charge and collect interest and other charges…as the financial institution and borrower may agree upon from time to time." Again, a contractual agreement, not a statute or regulation, defines the applicable rates or amounts. An Interpretive Letter of Illinois' Division of Banking, although published by a predecessor agency of the current Division of Banking, addressed the issue of whether a limitation on a delinquent payment service charge, which would otherwise have been subject to a dollar amount limitation found in the Interest Act, applied to a late payment on a HELOC; the Interpretive Letter concluded that the HELOC qualified as a "revolving credit plan" and thus the late payment fee was de-regulated pursuant to Section 4 of the IFSDA.

What about "predatory" interest rates? It is true that Illinois enacted legislation — the High-Risk Home Loan Act — to reign in predatory interest rates on loans; however, that law does not cap interest rates at a defined APR or APY. Rather, it states that if a loan has an interest rate or total loan fees that exceed the statutory amount, then numerous additional requirements and procedures for the benefit of the borrower apply, such as restrictions on balloon payments.

Having established that Section 5e of the Act and Section 4 of the IFSDA de-regulate loan interest rates and fees charged by state-chartered banks, how does that impact national banks in Illinois? I began this column with a reference to the "wild card/parity" effect of Section 5(11) of the Act. When it comes to loan interest rates and charges, national banks have their own wild card up their sleeves — national banks benefit from the most-favored-lender rule, authorizing national banks to follow the same interest and fee statutes and rules that apply to state-chartered lenders in the state where the national bank is located. ■

Legal Link is a free CBAI member benefit. For answers to your general, banking-related legal questions, contact CBAI General Counsel Jerry Cavanaugh at 800/736-2224 (Illinois only), 217/529-2265 or jerryc@cbai.com or CBAI Paralegal Levette Shade at levettes@cbai.com.

SEPTEMBER 2021

1 **Marketing Group B —** Shazam Education Center, Springfield

2 **Marketing Group C —** CBAI West Conference Room, Springfield

2 **Operations/Technology Group A —** Shazam Education Center, Springfield

8 **Operations/Technology Group C —** Shazam Education Center, Springfield

8 **20 Legal Types of Accounts: Ownership, Documentation & CIP**

8 **ACH Payment Reclamation & Garnishments**

9 **Operations/Technology Group E —** Grizzly Jack's Grand Bear Resort, Utica

9 **CEO Forum Group II —** BKD, LLP Headquarters, St. Louis, MO

9 **CEO Forum Group VI —** BKD, LLP Headquarters, St. Louis, MO

10 **Operations/Technology Group B —** DoubleTree by Hilton, Lisle

14 **Completing the CTR Line-by-Line**

15 **Liabilities & Responsibilities of New & Experienced Directors**

16 **Job-Specific BSA Training for Lenders**

17 **Effective Management of Credit Report Disputes: ACDVs, AUDs & Joint Credit**

20 **Foreclosure & Repossession Compliance & Limitations**

21 **Hot Topics in Social Media Engagement for Community Banks**

22 **Bankruptcy for Lenders: Chapter 11 & Subchapter V, The Small Business Reorganization Act**

22 **Executive Committee Meeting, Past Chairman's Council Meeting & Dinner** — Marriott Marquis, Chicago

23–25 **CBAI's 47th Annual Convention & Exposition** — Marriott Marquis, Chicago

23 **Business Account Documentation**

27 **HMDA Reporting Part 1: Application Basics**

28 **Conducting In-House Evaluations: Guidance, Rules & Technological Tools**

29 **Strategic Planning for Community Banks**

30 **Understanding TRID Tolerance Cures**

OCTOBER 2021

4 **New AML Act: Update, Impact, Insight**

5 **Opening Accounts for Nonprofit Organizations**

6 **SAR Decision-Making**

7 **HR Group D —** Drury Hotel, Mt. Vernon

7 **CEO Forum Group I —** CBAI West Conference Room, Springfield

8 **HR Group B —** Shazam Education Center, Springfield

8 **CEO Forum Group VII —** DoubleTree by Hilton, Lisle

13 **Notary Compliance, Including Virtual Notarization**

14 **Denied Loan Requirements A to Z**

15 **HR Group A —** Shazam Education Center, Springfield

15 **Required Compliance for Commercial Loans Secured by Real Estate**

18–20 **Consumer Lending Institute —** Shazam Education Center, Springfield

19 **Job-Specific BSA Training for Senior Management & Directors**

20 **ACH: Stay Informed and In Compliance —** DoubleTree by Hilton, Lisle

20 **Branch Manager Group A —** Shazam Education Center, Springfield

20 **Top 10 IRA Rollover Mistakes**

21 **Reg E Investigation & Requirements for Debit Card Error Resolution**

21 **Social Media Bootcamp —** Shazam Education Center, Springfield

22 **Branch Manager Group B —** Grizzly Jack's Grand Bear Resort, Utica

22 **HR Group C —** Grizzly Jacks' Grand Bear Resort, Utica

26 **Adverse Action at Account Opening: Reporting & Documentation**

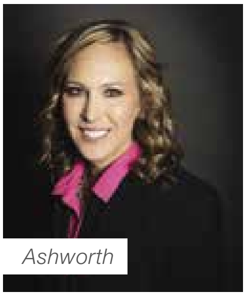
27 **HMDA Reporting Part 2: Collecting Demographic Information**

28 **CEO Forum Group III —** Shazam Education Center, Springfield

29 **CEO Forum Group VI —** Shazam Education Center, Springfield

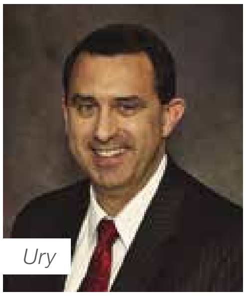
CBAI Webinar

Member News



Ashworth

Independent Banker magazine, the award-winning monthly publication of the Independent Community Bankers of America (ICBA), unveiled its annual 40 Under 40: Emerging Community Bank Leaders list. The award recognizes the nation's up-and-coming community bank innovators and influencers who represent the future of the industry. **Katie Ashworth, CRM officer/training coordinator at CNB Bank & Trust, N.A., Carlinville,** is named to the list.



Ury

Buena Vista National Bank recently announced **Brian Ury** has joined the bank as president. Ury brings more than 30 years of community banking experience to the bank in this role. His experience covers a vast range of banking functions, including bank examination, credit analysis, credit and loan documentation administration management, commercial lending, bank acquisition due diligence, ALCO, management and strategic planning. He also served as a senior lender and as a member of the Investment Committee. **Mary Sulser** will remain as CEO of Buena Vista National Bank.

ICBA's *Independent Banker* magazine recently announced its rankings of the top community bank loan producers for 2021. Based on 2020 FDIC data, the 2021 list features agricultural, commercial and consumer and mortgage lenders that made the most of one of the toughest years in recent memory. Thirteen CBAI member banks were named to the list.

Anchor State Bank, Buckley State Bank, and **Farmers National Bank of Griggsville** were among the banks in the agriculture category with less than $500 million in assets. In the $500 million to $1 billion agriculture category were **First Bank, Carmi; Legence Bank, Eldorado;** and **Midwest Bank, Monmouth. Dieterich Bank, Effingham; Bank of Springfield; First State Bank, Mendota;** and **Heartland Bank and Trust Co., Bloomington,** were recognized in the agriculture category for banks with more than $1 billion in assets.

In the consumer and mortgage category, **Allied Bank, sb, Oswego,** made the list for banks under $500 million in assets, and **Evergreen Bank, Oak Brook,** landed a spot on the more than $1 billion asset category. The **First National Bank of Ottawa** was recognized in the commercial category for banks $500 million to $1 billion in assets.

Congratulations to all the CBAI member banks named as top community bank loan producers for 2021!

Bank of Yates City is celebrating its 150th anniversary this year. CBAI presented bank staff with a plaque to commemorate the special milestone.

Whitaker

First Bankers Trust Company, N.A., Quincy, named **James Whitaker** as senior vice president (SVP) of business development. Whitaker is the key leader and supporter of First Banker's business development function. In this role, he will develop, execute and sustain business development initiatives that align with the company's priorities. Whitaker joined First Bankers more than 10 years ago and has held positions of vice president, commercial and agriculture, and most recently as chief credit officer.

Quad City Bank & Trust (QCBT) announced the retirement of **Michael Bauer** from his service on the bank's board of directors. Bauer helped to co-found QCR Holdings, Inc. (QCRH) in 1993 and create the company's first charter, Quad City Bank & Trust, in 1994. He retired as president and CEO of QCRH in 2007. **Jim Field,** who also serves as vice-chair on the board of directors for QCBT's parent company, QCRH, has replaced Mike Bauer on the QCBT board of directors effective May 20, 2021. QCBT President, **Laura "Divot" Ekizian,** was also unanimously elected as a new member of the bank's board of directors on May 20, 2021.

Quad City Bank & Trust (QCBT) welcomed **Mike Weipert** to the role of vice president, commercial banking officer. With 25 years of experience in the financial industry, Weipert specializes in working with commercial and industrial clients, commercial real estate companies and non-profit organizations. In his new role, he will be responsible for originating and managing the bank's commercial relationships. ■

Foundation Report

Contributors to the Foundation's 25th Anniversary Campaign

Individuals:

Dr. John Baer, First National Bank, Tremont

Connie Boyle, First National Bank, Tremont

Dr. Brock Butts, First National Bank, Tremont

Jerry Cavanaugh, CBAI, Springfield

Ken Gibson, First National Bank, Tremont

June Kidd, First National Bank, Tremont

Kim McKee, North Central Bank, Hennepin

Jim Sommer, First National Bank, Tremont

Dave Pirsein, First National Bank in Pinckneyville

Members:

North Central Bank, Hennepin

SouthernTrust Bank, Marion

Devon Bank, Chicago, made a payment toward its silver-level pledge to the Foundation.

State Bank of Whittington, Benton, made a payment toward its $5,000 pledge to the Foundation.

North Central Bank, Hennepin, held "dress-down days" on Fridays in May in honor of the Foundation, collecting contributions totaling $180.

Staff members of the CBAI corporate family making automatic payroll deductions to benefit the Foundation are:

Lesa Black, CBSC

Jerry Cavanaugh, CBAI

Jenny Dial, CBAI

Valerie Johnston, CBAI

Tracy McQuinn, CBAI

Jerry Peck, CBAI

David Schroeder, CBAI

Board and committee members of the CBAI corporate family donating travel expenses to the Foundation are Jerry Cavanaugh, CBAI; Will Coolley, Longview Capital Corporation, Newman; Kevin Day, State Bank, Waterloo, Carol Jo Fritts, First Neighbor Bank, N.A., Toledo; Richard Hiatt, Fairbury-Cropsey; David Loundy, Devon Bank, Chicago; Kraig Lounsberry, CBAI; Chad Martin, Goodfield State Bank; David Pirsein, First National Bank in Pinckneyville; Gregg Roegge, Rushville State Bank; David Stanton, PeopleFirst Bank, Joliet; Alan Stremlau, Illini State Bank, Tonica; and William Wubben, Apple River State Bank.

The Foundation received $200 from CBSC and CBAI board members as a result of the "dress-down" board meeting in June. ■

Welcome New Members

Clark, Schaefer, Hackett & Co.
1 East 4th Street
Cincinnati, OH 45202
Scott Deters, Shareholder
513-768-7523
www.cshco.com
sdeters@cshco.com
Accounting Firm

IBT Apps
1500 Arrow Point Drive, Suite #801
Cedar Park, TX 78613
Phil Layher, Vice President of Business Development
512-616-1100
www.ibtapps.com
phil.layher@ibtapps.com
Core Processing

Staff News


Peck

Megan Peck, vice president of governmental relations for CBAI, has been named to a group of emerging leaders from across Illinois selected to participate in the ninth annual Edgar Fellows Program.

The Edgar Fellows Program is an initiative designed by former Illinois Governor Jim Edgar to inspire respectful and collaborative leadership to address the state's major challenges. The 40 participants selected this year were chosen from a field of nearly 200 nominees and include elected and appointed officials from all levels of government, leaders of non-profit organizations and individuals who are making their mark in the business world. The class includes several high-profile legislators, including the Senate Minority Leader.

The Edgar Fellows week included an intense executive training program from August 1 through 5, designed and hosted by Edgar and the University of Illinois Institute of Government and Public Affairs. The fellows engaged with more than two dozen policy experts and experienced practitioners. But most importantly, they learned from each other in discussions of issues such as workforce development, climate change, public safety, disaster planning and intergovernmental cooperation. ■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