January 2020
Volume 46 • Issue 1

Banknotes

OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS ASSOCIATION OF ILLINOIS

2020: Focus on the Future

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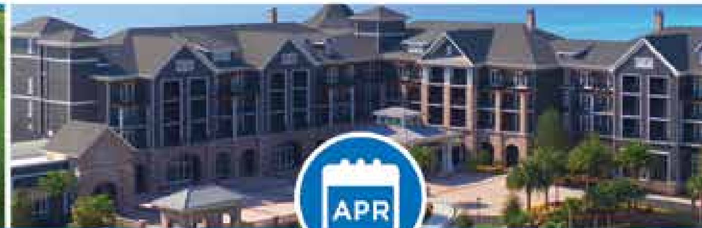

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PUBLISHED BY
E&M Consulting, Inc.
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Chaska, MN 55318
p. 800/572-0011
f. 952/448-9928
www.emconsultinginc.com

2020:
Focus on the Future
ILLINOIS BUSINESS OUTLOOK

Community bankers understand that the success of our profession is directly tied to the success of the customers and the communities that we serve. CBAI reflects those values by working closely with leading industry partners in Springfield and Washington D.C. Community bankers can often be found advocating for issues that fall well beyond what is considered core banking concerns. Whether it's economic development, strengthening the workforce, or partnering with our friends in agriculture, we understand that what's good for our customers is good for our banks. To help community bankers better understand the concerns of customers going into 2020, we asked our leading industry partners to share their outlook for the coming year.

ILLINOIS FARM BUREAU
Farm. Family. Food.™

Richard Guebert, Jr.,
President, Illinois Farm Bureau

Agriculture continues to be the economic backbone of Illinois. According to a recent study, agriculture in Illinois is responsible for employing 482,545 men and women and adding nearly 10,000 jobs a year. In terms of economic output, Illinois agriculture adds an annual total of $137.6 billion to the state's economy. Thanks to the most productive soils and the best growing conditions for corn and soybeans in the world, our 72,000 family-managed farming businesses create $1.80 of revenue in the general economy for each dollar generated on the farm.

With forecasts of potentially low exports of soybeans to China and increasing competition from South America, Illinois Farm Bureau members report that their financial condition is the same or more challenging than it was a year ago. Most Illinois farms have sufficient working capital reserves and strategies in place to manage operating costs and price risks. However, some farms are under stress and those stresses may increase in 2020. Despite the trends of increasing farm debt and an overall greater dependence on credit in the form of operating loans, Illinois farming businesses are expected to see relatively stable farmland and commodity prices. A majority of our members are expecting their business conditions to stay the same or possibly worsen over the next 12 months. As a result, Illinois farmers' relationships with their lenders will remain important in 2020.

Rob Karr,

President & CEO, Illinois Retail Merchants Association

When it comes to an economically vital sector, none rival retail. Illinois retailers generate the second single largest source of tax revenue for the state and the largest for most units of local government. Increasingly, the sales tax revenue generated by retailers also helps schools, public safety and transportation agencies. As retail is property-intensive, we also generate a great deal in property taxes. Additionally, the retail sector employs one in five Illinois workers and accounts for 16% of labor income.

Retail certainly faces challenges, but it is hardly facing an "apocalypse." For example, nationally in 2018, for every store that closed, five opened. Change in the retail sector is hardly new. On-line is not "killing retail." Malls are not dying. In fact, a majority of Generation Z (those born from 2000 to the present) and Baby Boomers (1946-1964) report they will shop brick-and-mortar for the holidays. What is significant is that those are the two largest generations, and the Baby Boomers have the most money. But that doesn't mean retail isn't changing.

No economic sector is as evolutionary as the retail sector. That is because retailers are 100% customer-facing. Retailers must not only meet customer desires but anticipate and exceed them. This is why we see brick-and-mortar retailers of all types and sizes investing in technology and on-line experiences. It is why traditional online retailers are investing in brick-and-mortar storefronts.

As a narrow-margin industry, retailers are particularly sensitive to any and every cost impact. Soaring retail theft numbers, government imposed starting wages and other labor mandates, tariff uncertainty, sales and property taxes, etc. all negatively impact retail. Illinois retailers face a myriad of challenges, particularly in Illinois, but retail isn't dead, dying or even on life-support.

Mark Denzler

President and CEO, Illinois Manufacturers' Association

Manufacturing matters in Illinois! Manufacturers directly employ 592,000 men and women who produce $304 billion annually in economic output which constitutes the single largest share of the Gross State Product. Every direct manufacturing job supports another 1.6 jobs in our economy and every manufacturing dollar generates another $1.89 in economic activity – the largest multipliers of any sector. With continued low unemployment rates, manufacturers face significant challenges in finding qualified workers. Nationally, for 18 consecutive months, the number of open jobs has exceeded the number of people looking for work. The IMA Education Foundation is working to develop a pipeline of qualified applicants with recent successes, including the passage of a new apprenticeship tax credit and dual credit program.

Last year, Illinois manufacturers contributed 93% of Illinois exports that totaled more than $62 billion. 95% of the world's consumers live outside the United States, so it's important to get trade agreements completed with Canada and Mexico, Japan, China and others. The uncertainty about tariffs remains a concern. Nationally, manufacturing activity remains weak with orders for new durable goods dropping 5.4% over the last 12 months and core capital goods orders – a proxy for capital spending – declining 0.8% year over year. The Institute for Supply Chain Management's survey shows continued contracting activity with September's PMI at the lowest reading since 2009.

Greg St. Aubin,

Senior Vice President, Governmental Affairs, Illinois REALTORS®

Illinois' housing market continues to be shaped by low inventories but continued strong consumer demand and low interest rates are providing market traction heading into 2020.

In 2019, sales are on track for a modest decrease of more than 3%, while median prices are on track to be up more than 5% on an annual basis. The housing market forecast calls for continued sales slippage in the state as a whole, although consumer demand in the Chicago area will drive sales there slightly higher.

Inventories are still quite low, with fewer than 60,000 properties on the market statewide at the beginning of the year. There's no indication that housing inventories will increase significantly in the short term, and those seeking a home at or near the median price point face stiff competition in some areas.

Illinois Political Outlook

Jerry Peck, SVP Governmental Relations

Illinois General Assemblies (GA) are seated for two years. The current 101st GA was sworn in on January 14, 2019, and will serve until a new 102nd GA is seated in January of 2021. Historically, Illinois General Assemblies were designed to do most of their work, including budgeting, in the first year, with the second year intended to be a slower session dedicated to pressing matters. That hasn't been the case for the last few decades in Springfield. Recent General Assemblies have taken up sweeping legislation in both years of session and during the fall veto sessions.

2020 looks to break with recent tradition as we anticipate the General Assembly returning to its historical roots. 2019 was an unprecedented year for sweeping legislative changes. Governor JB Pritzker was successful in raising the minimum wage, legalizing recreational cannabis, expanding gaming, and raising the motor fuel tax, as well as passing a $40.6 billion budget, $65 billion in combined capital bills, a constitutional amendment to impose a graduated income tax, and a host of other progressive Democrat priorities. The fall veto session was a little more restrained with municipal pension consolidation as the Governor's top legislative accomplishment. The General Assembly approved technical clean-up bills for gaming and recreational cannabis but efforts to address a "Clean Energy Jobs Act" and other liberal priorities were not addressed.

There are several factors likely to lead to a slowdown in the second year of the 101st GA. First, 2020 is an election year and the last election before redistricting. Lawmakers are more likely to campaign on the legislative accomplishments/failures of 2019 (depending on your political perspective) and work to solidify their political bases than to take up sweeping and potentially controversial legislation.

The passage of gambling expansion and increases in the motor fuel tax will result in more than $65 billion in capital projects around the state. That's a lot of ribbon cuttings to keep elected officials busy and placated. At the same time, their hands will be somewhat tied in the budgeting process until they know the fate of the constitutional amendment imposing a graduated income tax that will be decided in the November general election. If it passes, they can set rates as they wish and have plenty of tax revenue available for spending priorities. If it fails, spending could be more austere, and they will likely take up an effort to raise the flat income tax rate in the fall veto session to address spending needs.

On top of that is the elephant in the room which casts a long shadow over everything in Illinois government: corruption. We know that three state senators are currently targets of federal investigations. One senator wore a wire as a cooperating witness and caught a state representative on tape attempting to bribe him for political favors; that representative has since resigned. One senator had his home, offices and the offices of many known associates raided by the FBI. A third senator has been charged with 41 counts of embezzlement. The investigations aren't limited to elected officials. An electrical utility company in Northern Illinois is under the federal microscope for its lobbying practices in an investigation that includes a who's who of politically connected insiders and power players. Lawmakers may find it easier to forgo sensitive negotiations until they know how far the corruption probes go, who is wearing a wire, and when the next shoe will drop.

This is not to say that there won't be plenty of action in the 2020 legislative session, it will just likely be more subdued than the frantic pace of major legislative change we saw in 2019. At the federal level, a presidential election and seemingly never-ending impeachment threats will continue to drain most of the oxygen out of the room for other legislative initiatives. In any case, community bankers can rest assured that the eight members of the CBAI governmental relations team will be at our posts doing what we do best, looking out for the interests of community bankers and the communities they serve. 2020 is shaping up to be another wild ride. Keep an eye out for plenty of war stories from the trenches in CBAI's News from the Front.

The regulatory environment in the state continues to provide challenges for the housing market. Rent control proposals do little to enhance affordability and almost certainly could scare away real estate investors. A proposed graduated transfer tax in Chicago could also layer additional costs onto the property owner, especially small and large businesses and commercial properties. These costs would likely be passed on to tenants in the form of higher leases for commercial space and higher rents on the residential side of the business.

CBAI Community Bankers Association of Illinois
A Membership of Real Community Banks

Kraig Lounsberry,
President, Community Bankers Association of Illinois

Overall loan demand remains high and financial institutions are having another solid year with 95% reporting profitability in 2019. According to FDIC reports, 74% of a typical community bank's portfolio is in small business and agriculture. Thirty-two thousand community banking professionals in Illinois provide service and dedication to their customers that money center banks simply can't duplicate.

Consolidation continues in the banking industry with more than a dozen mergers and acquisitions in Illinois in 2019. To combat this trend, community bankers need to be laser-focused on organic growth and succession planning. Even with the M&A activity, Illinois remains one of the leading states in the number of community bank charters with 419, just slightly below Texas with 422 (IN-100, WI-195, MO-251). Illinois is set to see its first De Novo (new bank charter) in more than a decade with First Women's Bank of Chicago, in formation, with plans to begin offering services in 2020.

The move to digital banking services to complement networks of physical branches continues. Real-time digital payment solutions and 24-hour settlements of both business-to-business and person-to-person transactions are on the horizon. A key to building the new system will be interoperability that will allow emerging real-time payment options to work together seamlessly. The expeditious creation of the FedNow payment system is vital to the financial health of community banks, small businesses and consumers.

In 2020 and beyond, community banks will continue to be the lifeblood of rural America and small businesses everywhere. Community banks don't jump in and out of markets like the megabanks but are in it for the long haul supporting their communities and customers 24 hours a day and seven days a week. CBAI is right there by their side: One Mission. Community Banks.® ■

Caption: (L to R) Dave Rennegarbe, president/CEO, First National Bank in Okawville, with Representative Charlie Meier

"Having lived through the draught of '80, draught of '83, draught of '84, and the draught of '88 we had in Southern Illinois, if I would have been dealing with a major bank, I would have been bankrupt. These banks pull together and work it out. The small-town banker is the first on the wedding invitation list because they are part of the family. The relationship built with small town bankers and farmers is an amazing relationship."

Charlie Meier, Illinois State Representative, farmer, community bank customer

CBAI Leadership for 2020

WOULD YOU LIKE TO BE MORE INVOLVED IN CBAI AS A BANKER VOLUNTEER?
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On page four of Banknotes, the names of those bankers who serve on the CBAI board of directors appear. Here is a listing of the members of the affiliated boards of directors and CBAI standing committees for 2019-20. Their time, consideration, and thoughtful participation are most appreciated.

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+ Jeff Bonnett, Havana National Bank
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+ Mike Estes, The Fisher National Bank
+ Chris Gavin, Midwest Bank, Monmouth
+ Dan Graham, Flora Bank & Trust
+ Haley Guisti, North Central Bank, Hennepin
+ Dennis Hesker, First National Bank of Okawville
+ Mary Jo Homan, Chester National Bank
+ Kerry Hoops, German-American State Bank, German Valley
+ Rick Jameson, North Central Bank, Hennepin
+ David Loundy, Devon Bank, Chicago
+ Chad Martin, Goodfield State Bank
+ Kim McKee, North Central Bank, Hennepin (Ladd)
+ Pat McShane, American Metro Bank, Chicago
+ Doug Parrott, State Bank of Toulon
+ Gregg Roegge, Rushville State Bank
+ David Stanton, PeopleFirst Bank, Joliet
+ Preston Smith, First National Bank, Mattoon
+ Mary Sulser, Buena Vista National Bank, Chester
+ Dianna Torman, CCL, Prairie Community Bank, Marengo
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+ Valerie Stocks, Apple River State Bank (Warren)
+ Amy Theide, CCL, Prairie Community Bank, Marengo
+ Brenda Vohland, Farmers State Bank, Elmwood
+ Nichole Weber, The Frederick Community Bank, Paxton

Market Conditions at the Turn of the Year: A Quick Recap and Key Points to Ponder

Jeffrey F. Caughron, President and CEO, The Baker Group, Oklahoma City, OK

Where We've Been:

It's fair to say that 2019 was quite a transition year for Fed policy, interest rates and the bond market. The yield on the 10-year US Treasury Note, after reaching an eight-year high of 3.24% in November of 2018, dropped sharply to less than 1.50% this past September. For its part, the Fed had pushed the funds rate to 2.50% by December of 2018, its ninth rate-hike in three years. But they were soon forced to embrace the reality of weakening domestic growth, dormant inflation and mounting signs of stress in the global economy. The outlook was also muddied by months of confused signals about US trade policy, which prevented businesses from having confidence in planning and capital expenditure decisions.

Financial markets, which abhor uncertainty, naturally began to price-in expectations for easier money and a lower policy rate. As is usually the case, the bond market was right, and the Fed soon followed suit. Three rate cuts later, just in time for the holidays, we had the funds rate right on top of the 10-year yield of 1.75%. So, where do interest rates and markets go from here?

Having cut rates three times in 2019, the Fed would now love to engineer a soft landing. At this point, they'll want to see if what they've done so far will provide the glidepath. They run the risk, though, that the new year will bring disruptive crosscurrents that upset the balance. For example, recent disturbing behavior in the repo market may be a coal mine canary worth monitoring. Another would be corporate bonds, particularly those with lesser credits. When yield spreads on junk bonds widen out, trouble's coming. And with so much of the corporate bond universe barely above investment grade, the ripple effect could be profound. A word to the wise: watch corporate bonds with a wary eye.

Strategy Thoughts for 2020:

1. When determining investment strategy, some banks simply react to changes in their liquidity position. If loan growth slows and liquidity rises, they'll commit more to the securities portfolio. Other banks are more proactive. They'll see the value in positioning early for the next big move in rates, which at the moment is likely to be lower. That proactive approach makes much more sense, especially in an environment like we have currently. Normal balance sheet cyclicality will always play a role, but the best managed banks are those that read the signals from market behavior and yield curve trends and make investment decisions accordingly.

2. The bond portfolio can and should be used to lengthen or shorten duration, and to sculpt the cash flow profile of the balance sheet to take advantage of expected shifts in market rates and the yield curve. Remember, the investment portfolio is the tool with which banks can most easily correct asset/liability exposures and optimize the balance sheet for the rate environment.

3. Banks should assess their appetite for tax-exempt income, and structure cash flows so that they'll not experience painful reinvestment risk into lower yields as the Fed cuts rates. In other words, banks should transition from protecting value to protecting income. And don't forget, yield is an opinion but cash flow's a fact. Lock in yield by anchoring the cash flow with stable paying or bullet-like bonds.

4. Everything happens with a time lag. The impact of monetary policy, deposit pricing, or investment decisions made today will become manifest in bank performance at some point in the future. The cyclical ebbs and flows of liquidity are reflections of previous monetary policy and economic decisions, not the most recent move by the Fed. The trick for bank managers is to anticipate where we are in the cycle and make balance sheet adjustments accordingly, always with an eye toward the future. ■

THE BAKER GROUP is a preferred service provider of the Community BancService Corporation (CBSC). Jeffrey F. Caughron is a managing director with The Baker Group, where he serves as president and chief executive officer. Caughron has worked in financial markets and the securities industry since 1985, always with an emphasis on banking, investments and interest rate risk management. Contact: 800-937-2257, jcaughron@GoBaker.com

Public Act 101-0221 Amends Illinois Human Rights Act

Patti Tobin, Producer, Financial Practices Division
Community BancInsurance Services, powered by
Arthur J. Gallagher & Company, Springfield, IL

With the Illinois General Assembly in firm Democratic control and a new progressive Governor in place, the safe money for those of us operating businesses in the Land of Lincoln is that changes are coming on how our workplaces are regulated.

Well, let the changes begin. With a legislative alacrity that could only stem from unified government, Governor J.D. Pritzker has already signed a new law, and amendments to existing ones, that employment lawyers are describing as "sweeping."

First and foremost, bankers are employers, so setting out to understand the changes is critical to assuring compliance, which will, of course, be expected by insurers that underwrite Employment Liability Practice polices.

On August 9, Public Act 101-0221 became law. Don't let the unadventurous title of the legislation fool you — it is jammed with plenty of creative twists to employment contracts, confidentiality agreements, and expanded definitions of harassment and discrimination, among other changes that bankers have no option but to note.

Within the overarching law is the Workplace Transparency Act. The short explanation of the bill is that it is a kind of whistle-blower protection act.

The bill "prohibits employers from requiring employees, as a condition of employment or continued employment, to agree to refrain from making truthful statements or disclosures about alleged unlawful employment practices or criminal activity," according to an analysis by Kimberly Ross, a partner in the Chicago office of the law firm Ford Harrison.

It also prohibits employers from requiring employees to waive claims of unlawful employment practices. And employers are prohibited from writing arbitration agreements into employment contracts.

The latter provision on arbitration agreements is critical, and in all likelihood, will not be the final say on arbitration agreements in employment agreements.

The United States Supreme Court has consistently ruled that the Federal Arbitration Act (FAA), which allows for binding arbitration agreements in workplace contracts, pre-empts state laws that seek to neuter employer's use of arbitration agreements, as the Workplace Transparency Act (WTA) does.

Illinois' lawmakers and the Governor were undoubtedly aware of the FAA precedents established by the Supreme Court (of the United States) when they wrote and passed the WTA.

Ultimately, courts will have to settle the question of whether the FAA or WTA governs arbitration agreements in bankers' employment agreements.

Waiving WTA's Waiver Restrictions: We are not attorneys, but in the spirit of erring on the side of caution, the WTA is for the time being the law of the Land of Lincoln.

Interestingly, the WTA includes a waiver for the waiver prohibition: it allows for waivers in contracts, so long as they are negotiated between employers and employees, and the agreement is "in writing, demonstrates actual, knowing, and bargained-for consideration from both parties," and allows for employees to report unlawful practices to the Equal Employment Opportunity Commission.

The prospect of negotiating waivers with prospective hires sounds cumbersome. But, again, it is the new law of the state. With some time, we expect carriers will be able to help provide workable guidance through Employment Liability Practice policies.

Restricting Confidentiality Agreements:
The WTA permits confidentiality agreements when terminating employees — kind of.

Unilateral confidentiality agreements are not allowed, according to Ford Harrison's analysis.

If a confidentiality agreement is to be included in an employment or termination agreement, it must be the "documented preference of, and mutually beneficial to, both parties," Ford Harrison says.

If a bank does write a confidentiality agreement into a contract, it is now required to tell the employee of their right to have an attorney review the agreement. The employee must be given 21 days to review the agreement and given seven days to reject it.

Banks Required to Provide Sexual Harassment Prevention Training: Among several amendments to the Illinois Human Rights Act is a requirement for banks and all employers to provide annual sexual harassment prevention training.

Thankfully, the state's Department of Human Rights will develop a training program, which will be posted online for bankers to access at no cost. Banks will have the option of developing their own program, so long as it meets or exceeds the minimum standards set out in the state's model training program.

Other amendments to the Human Rights Act extend sexual harassment protections beyond a bank's physical parameters and extends protections to non-employee contractors to a bank.

Another amendment expands the definition of unlawful discrimination to include discrimination of the grounds of "actual or perceived" race, color, religion, national origin, ancestry, age, sex, marital status, sexual orientation, pregnancy or unfavorable discharge from the military.

"Previously, the concept of 'perceived' discrimination only applied in the disability and sexual orientation contexts," explains Ross in the Ford Harrison brief. "Thus, arguably under this expanded definition, if an employer perceives an employee to be 40 years old or older and acts accordingly, it can still be liable for discrimination even if the employee is younger than 40. The same holds true for all other protected characteristics."

The definition of harassment has also been expanded to include both actual and perceived demographic category when unwelcome conduct "has the purpose or effect of substantially interfering with the individual's work performance or creating an intimidating, hostile, or offensive working environment," according to the Ford Harrison analysis.

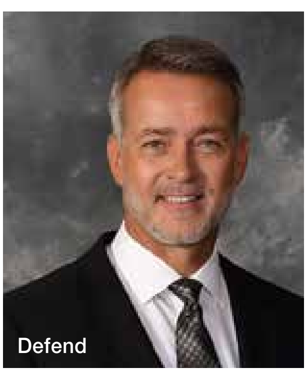
The above list is not comprehensive. There are other changes bankers will have to consider, and quite possibly more to come. It is still early in General Assembly's 101st session.

We, too, are working hard to stay on top of the changes and we are in constant communication with carriers to understand how they will impact ELP policies. For the time being, bankers are strongly encouraged to review existing employment agreements and internal policies related to the state's Human Rights Act.

Community BancInsurance Services, a division of Arthur J. Gallagher & Company, is the exclusively-endorsed insurance representative of CBAI/CBSC. Ask for Patti Tobin, CIC, Insurance Advisor and Area FI Director, Financial Practices (217) 414-4485 or patti_tobin@ajg.com. For the Group Benefits Division, you may contact Susan Cassiday, Account Executive (800) 982-6564 or susan_cassiday@ajg.com. ■

Member News

Community BancService Corporation (CBSC) recently added two new members to its board of directors. **Mike Defend, president and CEO, Crossroads Bank, Effingham**, has served in the banking industry for the past 31 years. He joined Crossroads Bank in 2014. He is a graduate of Southern Illinois University at Carbondale and the Stonier Graduate School of Banking. **Jason Knoedler** is the executive vice president of **Bank of Springfield** and the vice chairman of the Board for Spring Bancorp, Inc., based in Springfield, IL. Involved in all areas of the bank, he oversees commercial and mortgage lending and business development.


Defend


Knoedler

David Loundy, Chairman and CEO, Devon Bank, Chicago, was recently elected to the **Federal Home Loan Bank of Chicago** Board of Directors. Loundy's four-year term expires December 31, 2023.

BankORION recently announced the addition of **Beth Grabin** as chief financial officer. Grabin joins BankORION with many years of accounting and finance experience in the banking industry. She attended the Graduate School of Banking at Colorado and graduated from the Executive Program in Bank Financial Leadership through the Darden School of Business at the University of Virginia, Charlottesville.

Carrie Lamb was recently hired by **BankORION** as a mortgage loan officer. **Max Mercer** of **BankORION** was promoted to commercial banking officer.

Doug Stroud, Bradford National Bank, Greenville, recently retired from the bank on December 31, 2019. Stroud has been employed at the bank for eight years. In February 2014, he became the ninth president of Bradford National Bank, following the retirement of Frank Joy. He held that position for nearly five years before stepping down in January 2019. He maintained his position as CEO for all of 2019. Stroud will continue to serve on the Bradford National Bank board of directors.

Havana National Bank recently hired **Thad Walker** as a commercial loan officer at the Virginia branch. Walker brings more than 25 years of experience in various aspects of production agriculture.

Tompkins State Bank, Avon, recently welcomed **David Shragal** as senior vice president of ag lending. Shragal has more than 40 years of experience in agricultural and agribusiness lending.

Hickory Point Bank, Decatur, recently named **Jeff Burgoyne** as senior vice president, commercial banking. Burgoyne has 35 years of commercial banking experience and will manage and develop commercial banking relationships with clients in the Champaign and Danville area.

Collinsville Building & Loan Association was recently awarded the 2019 Business Impact Award by the City of Collinsville and Collinsville Chamber of Commerce.

Itasca Bank & Trust Co. recently announced plans to remodel the bank location at 308 West Irving Park in Itasca. The remodeling will continue through summer of 2020.

Legence Bank, Eldorado, recently opened a new Carbon Street location in November.

First National Bank & Trust Company, Clinton, in partnership with the DeWitt County Development Council, recently awarded $10,000 to three local businesses as a result of REV, an event helping local business owners 'ignite' their business. In its third consecutive year, First National Bank & Trust Company has reinvested $30,000 to local businesses through this event.

Atlanta-based firm Porter Keadle Moore (KPM) recently joined **Wipfli LLP.** The addition of KPM expand's Wipfli's physical presence into Southeastern United States and further strengthens Wipfli's reach in the financial services industry.

Howard & Howard Attorneys PLLC has announced the official formation of a Data Privacy and Cybersecurity Practice Group. The practice group's attorneys assist businesses in staying compliant with data privacy laws and regulations, preventing and protecting against cybersecurity threats and risks, and managing and responding to data breaches.

Midwestern Securities Trading Company, LLC (MSTC), East Peoria, IL, recently honored five of their top investment services partners with the Elite Financial Team Award, Harvester Award and the Star Team Award.

The 2019 Elite Team Award winners are **Brian Card**, financial advisor, and the team at PSB Investment Services, a division of **Princeville State Bank; Josh Miller, CFP®**, financial advisor, and the team at TGSB Financial Services, a division of **Table Grove State Bank; Robbie Minor,** financial advisor, and the team at **Sauk Valley Investment Services, a division of Sauk Valley Bank and Trust; Jeffrey Schumacher, CRPC®,** financial advisor, and the team at Goodfield State Bank Investment Services, a division of Goodfield State Bank; and Adam Carlson and Eric Grant, financial advisors, and the team at Midwest Bank Wealth Management, a division of **Midwest Bank.**

The 2019 Harvester Award winners are **Ahlden Harms,** financial advisor, of **The Frederick Community Wealth Management,** a division of **The Frederick Community Bank; Cody Leach, CFP®,** financial advisor, Graymont Investment Services, a division of **State Bank of Graymont; and Jeffrey Schumacher, CRPC®, financial advisor, Goodfield State Bank Investment Services.**

The 2019 Star Team Award winner is First Security Bank Investment Services, a division of **First Security Bank in Mackinaw.** Financial Advisor **Brian Card** leads the division. This team was recognized for their outstanding support and teamwork in helping their investment services division grow. ■

Welcome New Members

ASSOCIATE MEMBERS

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FINTECHS AND COMMUNITY BANKS – THE ODD (AND POTENTIALLY HAPPY) COUPLE

Thor Mathison, Attorney, Armstrong Teasdale, Grand Rapids, MI

If starting a new business is hard, building a financial technology (fintech) company is incredibly hard. From finding a fit in a crowded global marketplace, to navigating a complex regulatory environment, the deck is often stacked against young fintech companies.

If being a bank these days is hard, growing a community bank is incredibly hard. From compressing margins due to increasing competition from global banking conglomerates, to fighting off fintech upstarts looking to "disrupt" traditional banking services, the deck is often stacked against established community banks.

Funny how that works, huh? The market doesn't make it easy for anyone these days.

I do a fair bit of work for both fintechs and community banks. And while at first glance, these two business models appear to be diametrically opposed to one other, there is actually a huge opportunity for fintechs and banks to partner together.

Let me explain.

Most fintechs, hopefully, have cool technology. Indeed, the word "technology" is the second half of "fintech." Fintechs are usually built around novel technology that is designed, in some way or another, to help financial market participants do something quicker, cheaper or better. But that old Silicon Valley/Field of Dreams mantra "if you build it, they will come," doesn't always carry the day in a competitive marketplace.

The number one reason why startups—including fintechs—fail is due to a "lack of market fit." This is just a fancy way of saying that not enough people used the product. The second most common reason fintechs go under is that they run out of cash. Again, this is really because not enough people used the tech. It may sound antiquated in today's VC-driven economy, but more customers typically mean more revenue. It follows, then, that if fintechs had access to more customers, more would survive and prosper.

Community banks, on the other hand, have great customer bases. Their customers (at least the older ones) tend to be loyal and their products are "sticky," meaning that folks rarely leave their bank once they are there. Having lots of loyal customers allows the bank to lend out its customers' money at a higher interest rate than it pays its customers for keeping their money at the bank. This isn't a revolutionary concept.

The problem is that the younger generations (Gen X, Millennials and younger) don't really go to banks anymore, so customer loyalty is eroding. These customers not only want—but expect—fast and secure digital banking solutions, such as mobile apps, online banking, digital payments, cryptocurrency solutions, etc. and are happy to move their accounts to bigger banks with better tech-forward products. Moreover, companies that are not even banks (ever hear of Apple Inc. or Amazon?) are moving into customer banking, increasing the erosion of community banks' customer bases and, accordingly, their bottom lines.

And, of course, fintechs are working hard to erode almost every aspect of a community banks' business model. CBInsights put out this great infographic a few years ago showing the Wells Fargo banking login page and identifying the various fintech companies attacking each of the bank's particular service lines, from home lending to payroll and everything in-between:

If this graphic doesn't make community banks anxious, I'm not sure what will.

So what are fintechs and community banks to do? My advice is partner together!

Fintechs need customers and cash and community banks need new technology and to appeal to younger generations. Partnering together potentially solves both their problems. Of course, the parties need to do their due diligence, properly paper the transaction, and ensure that the partnership makes financial and business sense. There can also be technological and cultural integration issues when you bring together such different organizations, but those can be worked through over time.

If you represent a bank or a fintech and want to discuss any of these issues, please feel free to reach out to me. Every situation is different and partnering with another business requires a thoughtful approach and significant planning and negotiation. ■

Thor Mathison is an attorney with Armstrong Teasdale in Grand Rapids, MI. He can be reached by e-mail at tmathison@atllp.com, or by phone at 314/259-4718.

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Contact Valerie Johnston at valeriej@cbai.com for more information.

Where Do We Find Safe Harbor in Times of Agricultural Uncertainty?

Kyle McMahon, Founder and CEO, Iron Comps by Tractor Zoom, West De Moines, IA

The ag economy in 2019 is not the same economy we endured in the 1980s. However, as net farm income remains low for the fifth straight year, talks of debt restructuring, asset liquidation, liquidity and regulatory pressure have become common topics among ag lenders. In the words of Ron Hansen, Iowa Division of Banking Superintendent, "Ag gives me anxiety," as it relates to net farm income and regulations.

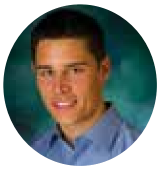
According to Chad Jorgensen with the Federal Reserve Bank of Chicago, "agriculture customer debt to asset was 41% in July 2019 compared to 38% the year prior." Rising debt levels raise concern over asset quality and more accurately determining asset values in current market conditions. The most expensive assets farmers own are farmland and equipment. Of non-crop assets, a farm's equity structure may look like this; 60% farmland, 30% farm equipment, and 10% buildings.

Iowa State University, Ames; University of Illinois, Champaign-Urbana; and Purdue University, West Lafayette, IN; have all reported relatively steady farmland values over the last three years. The three-state average of good farmland has only dropped -1.4% in that time period. A low supply of good farmland has kept values steady. If values change, banks typically rely on certified appraisals.

Used farm equipment is a different story. Used equipment prices are as volatile as commodity prices. Several factors are to blame, including regional weather events, supply and demand, and net farm income. Different equipment categories have been more affected than others. Straight-line -10% depreciation schedules simply don't work anymore. For example, a new John Deere S670 combine cost $375,000 in 2014. The average auction value of that same machine today is $104,556. Straight-line depreciation would imply a value of $221,434.

Regulators have recognized the volatility in equipment prices. With the hype of CECL taking effect in 2023, regulators have reportedly requested third party equipment chattel appraisals during exams. Banks traditionally turn to auction results to build a chattel appraisal because auction results are real, third party values with no conflict of interest to the ag lender. During the renewal season, a formal farm visit may help ag lenders better determine asset quality and gather better data points such as make and model of farm equipment to help them build better machinery lists for chattel appraisals and collateral purposes.

Moving forward, uncertainty looms as commodity prices and trade policy look unfavorable. Net farm income and equity erosion will continue to be an issue. Having more information and data to help make better decisions, provide safe harbor, and adequately prepare for a downturn is an exercise anyone in the agricultural arena should be considering.



Kyle McMahon is the founder and CEO of Iron Comps by Tractor Zoom. Kyle is a third-generation entrepreneur and actively farms in Southeast Iowa. Prior to starting Tractor Zoom, he was the director of acquisitions for Summit Agricultural Group where he led a team to buy and sell farmland across the Midwestern corn belt. Kyle co-founded Buch-McMahon Lawn and Landscaping and is a graduate of Iowa State University, Ames. ■

Selecting a New Core Vendor on a Limited Budget

10 BEST PRACTICES FOR A SMOOTH DIY VENDOR SELECTION PROCESS

Charlie Kelly, Senior Director, Remedy Consulting, Northbrook, IL

Your bank has not been pleased with its core system performance in the past few years, and your contract renewal is approaching. The management team has decided that it is time to look at alternative vendors and see if the grass is greener elsewhere. You need to keep costs down and have opted to use an internal team to manage the vendor selection process.

Smaller banks may not have the budget to hire a consultant to manage a core systems provider selection. As a result, we often get the question:

"What is your best advice for managing a core systems selection on a limited budget?"

Most do-it-yourself systems selections fail for one of two reasons: either the bank fails to dedicate a full-time project manager to the effort, or the person chosen to lead was the wrong one. The wrong individual could be a person without solid project management skills or someone without the authority to make decisions and lead the team.

So, if your financial institution can dedicate a strong project manager to the effort, what should they be concentrating on?

10 Best Practices for Vendor Selection

1. **Set your goals, timelines and project plan.** Settle on a date that you plan to finish the project and establish a vendor selection committee that will adhere to that date.
2. **Complete a needs analysis**. Figure out where, specifically, your current vendor is failing and document those items. You will need these for your senior management summary as detailed below.
3. **Define the criteria used to select the next vendor.** Survey your power users to find out what is important to them and how they would rank the criteria. Document these criteria, as they will also be needed for the summary.
4. **Develop the request for proposal.** Keep the RFP as short and simple as possible. Before adding a question to your RFP, ask yourself if it is a question that will differentiate one vendor from another. If it is not, delete the question. Keep the vendor questions focused on the areas that matter to your team.
5. **Choose the vendors that will receive the RFP.** Considering three vendors is optimal; considering five is too many. Keep in mind that a large selection team will have a difficult time coming to a consensus if they have more than a couple options. Limit the vendors based on recommendations, reputation in the industry, etc.

6. **Review the RFP responses.** Have a plan for which members of your team will review the RFP responses and compare financial proposals for each. Build a list of follow-up questions that can be sent to the vendors.

7. **Model and compare the financial proposals.** Your senior management team will want a side-by-side comparison of what each vendor will cost them over some defined period—five or seven years, usually.

8. **Conduct vendor demonstrations.** Your team will need to have a full-day demonstration for each vendor that responds to the RFP. All vendors should demonstrate within a reasonable time period of the others, to ensure that the committee has a fresh memory of each when it is time to rank them.

9. **Score results and prepare a presentation for senior management.** Show how you scored each vendor, based on the selection criteria you built in bullet number three above. Note that the score is simply to provide guidance on the decision, not the deciding factor.

10. **Make your decision and negotiate a contract.** If you have been successful at modeling each of the financial proposals, you should have a decent feel for what each solution will cost you. The contract and pricing negotiation phase may be the right time to bring in a pricing consultant to get you to a final rate and proper terms and conditions.

The bottom line is that the key to a successful do-it-yourself core vendor selection is a matter of dedicating time, staying organized, managing the internal team, and controlling the scope of the engagement. This process is useful for any major technology selection.

Why Hire Consultants?

If your organization has the budget, consultants often have access to several tools that can boost the efficiency and reliability of vendor selection:

- a time-tested RFP template that can be customized for each client;
- a proprietary financial model for comparing the proposals;
- project managers with multiple selections under their belt;
- a proven systems-selection methodology;
- a vendor scoring process that can be easily customized;
- a strong understanding of the timelines; and
- a management reporting template to more easily summarize the selection results.

Additional Tips for Success

Plan four to five months from start to finish for a systems selection. Expect to pull the internal person that will manage the project off all other duties during that time. The selection committee members will not be 100% dedicated, but can expect, on average, to increase their workload 15-20% when the systems selection is in full swing.

If the organization truly plans to change vendors, start your project timeline by working backwards from your contract date, estimating four to five months for systems selection, another three to four months for contract and pricing negotiation, and up to 12 months to get on the new vendor's conversion schedule. A safe bet would be to begin the process no fewer than 18 months before the end of your contract, but 24 months is more realistic.

Make sure your core team involves a combination of financial and product experts. The financial modeling could take even a seasoned CFO a long time to grasp. It is typical for vendor proposals to have several price points. Unfortunately, product names and rates across vendors are rarely consistent. During the modeling, a product expert is a useful partner for your financial expert. This individual can ensure that each vendor's proposal includes all required elements. Items that are needed but excluded from a proposal can make a big difference in the total cost of ownership.

A good systems selection process often comes down to digging in and getting the process started. Those contact renewal dates will come up faster than you think, so there is no time like the present! ■

Charlie Kelly *is a senior director at Remedy Consulting, Northbrook, Illinois. https://remedyconsult.net. Remedy Consulting is a bank and credit union advisory firm, specializing in technology systems selections, vendor contract negotiations, and core conversion project management. Prior to Remedy, Kelly spent 14 years as VP/pricing, contracts and product pricing for a major fintech vendor. He can be reached at* ***ckelly@remedyconsult.net*** *or by calling 312/270-3490.*

Feel free to reach out to Charlie for a free 15-minute consultation or with any questions related to this article.

CAREER DEVELOPMENT DIVISION (CDD) FALL MEETING

Ryan Heiser, The Fisher National Bank, (Mahomet), with his award for three years of service as CDD Chairman.

Katie Ashworth, CNB Bank & Trust N.A., Carlinville, 2019 Economic Educator.

Kim McKee, North Central Bank, Hennepin, (Ladd), 2019 CDD Career Banker of the Year.

More than 60 members gathered for the 2019 Fall Meeting of CBAI's Career Development Division (CDD) on October 22nd, at the Hyatt Place, Champaign. The evening prior to the meeting, CDD members participated in an Escape Room where teams worked together to solve puzzles and escape the different themed rooms.

This year's Fall Meeting began with the popular networking session, providing attendees with the opportunity to participate in roundtable discussions by area of banking. **Chris DiLorenzo, president of The James Paul Group,** kicked off the conference with the session "Leadership Coaching," followed by the session "Winning the Game of Business by Engaging Your Team."

During the Annual Business Meeting Luncheon, **Ryan Heiser, CDD chairman and group 9 director with The Fisher National Bank, (Mahomet),** conducted the election of even-numbered group directors. Members were then updated on the status of CDD regarding membership and finances. Heiser reported that dues from the nearly 200 members remain the largest source of income; however, the Fall and Spring Meeting make a significant fiscal contribution. He also emphasized that CDD board members have controlled expenses and made a significant contribution to the strength of CBAI.

During this meeting, the Economic Education Award was also bestowed. **Katie Ashworth, CNB Bank & Trust N.A., Carlinville,** was recognized as the **CDD 2019 Economic Educator. The CDD Career Banker of the Year** was also announced, with **Kim McKee, North Central Bank, Hennepin, (Ladd),** receiving the prestigious award.

The afternoon agenda continued with Chris DiLorenzo with his final session, "Emotional Intelligence."

The CDD members once again participated in a "dress down" day, where members wore jeans for a $5 donation, which raised $155 for Community BancPac. ■


WE ESCAPED!


SO CLOSE!


SO CLOSE!

Attendees gained valuable information from the CBAI Women in Leadership Panel.

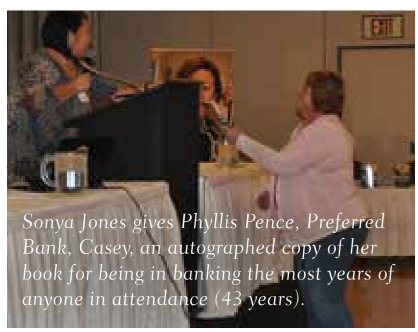
Attendees "Join the Journey" at CBAI's 13th Annual Women in Community Banking Conference

On November 6, CBAI held its 13th annual **Women in Community Banking Conference** at the Northfield Inn and Conference Center in Springfield. Participants from all areas of banking throughout Illinois benefited from expert speakers, pertinent and informative topics, peer networking and a mini expo. This one-day conference, sponsored by the **Federal Home Loan Bank of Chicago,** was developed by a committee of female community-bank professionals who shaped the agenda to address top concerns facing women professionals, as well as pertinent banking issues for community banks.

"I enjoyed networking with fellow women bankers. I loved all the speakers. There was something great I took away from each of them. Thank you so much for this event! I really enjoyed meeting so many intelligent and wonderful women," said **Marcy Doyle, loan officer at Apple River State Bank/First Community State Bank of Galena.**

Attendees loved Sonya Jones' interactive sessions and witty, inspirational messages.

The conference was kicked off with an interactive and thought-provoking session by **Sonya Jones**, entitled "Join the Journey," who shared that "attitude is everything" and the importance of "finding your why." Jones was a contestant on Season 16 of **NBC's hit reality show, "The Biggest Loser."** She lost 144 pounds (50.88% of her body weight) and came within .01% of winning the entire competition – the closest margin in Biggest Loser history.



Sonya Jones gives Phyllis Pence, Preferred Bank, Casey, an autographed copy of her book for being in banking the most years of anyone in attendance (43 years).

"I really enjoyed Sonya Jones' interaction with attendees! This conference was outstanding – one of the best I've attended in the past 12 years," said **Ramona Knoblett, branch manager at First Robinson Savings Bank, N.A. Julie Plattner, vice president of lending at United Community Bank, Springfield (Pittsfield Branch)** agreed, adding "Sonya's presentation and the roundtable discussion were the sessions I most enjoyed."

Next on the agenda were the community-banking roundtable discussions, where attendees had the chance to share ideas, issues and concerns regarding "hot topics" that keep them up at night. One of several networking opportunities, the roundtables are always a valuable benefit to attendees.

Sergeant Tracy Lillard, "Trooper Tracy" of the Illinois State Police, was fun and educational!

Closing out the morning's education was a session with **Sergeant Tracy Lillard, Illinois State Police.** "Trooper Tracy's" very lively session offered attendees personal safety tips, not only in the workplace, but to and from their vehicles, while in the car, at home, at a shopping center or out in public.

The luncheon speaker, **Megan Peck, CBAI vice president of governmental relations,** provided a legislative update on the association and encouraged attendee involvement with CBAI.

Keeping with the conference's theme, the next speaker, Leslie Wilson, Partner, BKD, LLP, discussed tips on how to navigate the business environment, make choices along the way, and take hold of new opportunities in your own career. A CBAI Women in Leadership Panel followed up with an insightful session.

Mary Sulser, president/CEO, Buena Vista National Bank, Chester, led a panel of current CBAI women in leadership who shared their experiences, gave advice and answered questions about their successful, sometimes stressful, journeys as community bankers. Panelist included **Sheila Burcham, CEO, Community Trust Bank, Irvington; Patty Clarke, president and CEO, First National Bank of Raymond; Mary Jo Homan, treasurer and vice president, Chester National Bank; and Dianna Torman, president and CEO, Prairie Community Bank, Marengo.**

"I enjoyed the panel; they did a great job! The morning flew by with Sonya and Tracy. I always take something back to the bank to work on or share from this conference," said **Valerie Stocks, senior vice president at Apple River State Bank.**

Jones closed the conference with a session entitled, **"Lessons from a Loser."** This inspirational session shared Jones' journey on "The Biggest Loser," which has inspired her to "pay it forward" and teach others to find worth in their lives and joy in their own journeys. "Sonya was witty and fun. She was very unique and offered good advice!" said **Melissa Gill, operations manager at Scott State Bank, Bethany.** "Trooper Tracy was a lot of fun and brought a lightness to the day!!"

A mini exposition featuring the latest in products and services designed for community banks rounded out the day.

"I really enjoyed my first CBAI conference. It was everything that I hoped for and am already looking forward to next year!" said **Harlei Postlewait, assistant CRA officer at First Robinson Savings N.A.** "The information was priceless!"

An evening social activity was also offered the night before the conference. Held at the Northfield Center, participants enjoyed a meal of heavy appetizers and had the opportunity to get to know their fellow community banker through a "chick flick" movie quote ice-breaker activity. Then, the artists at The Painted Tin Bin, Springfield, provided all the materials and instructions to create perfectly painted pieces of the attendee's choice.

Again this year, attendees were invited to "dress down" for the conference for a minimum $5 donation to the Susan G. Komen for the Cure breast cancer foundation. The event also included a basket raffle with items donated by CBAI's Women in Community Banking Sub-Committee. **Funds raised from the "dress down" opportunity and basket raffle resulted in a $490 donated to Susan G. Komen for the Cure.**

Women in Community Banking Sub-Committee

*Chairperson Beth Cotner, Scott State Bank, Bethany

Ramona Knoblett, First Robinson Savings Bank, N.A.

Lori Pieper, Community State Bank, Galva

Valerie Stocks, Apple River State Bank

*Amy Thiede, CCL, Prairie Community Bank, Marengo

Brenda Vohland, Farmers State Bank of Elmwood

Nichole Weber, The Frederick Community Bank, Paxton

***denotes member of CBAI Career Development Division**

Participants share ideas and brainstorm solutions during the community banking "hot topic" roundtable discussions.

EXHIBITING FIRMS

BancMac – Community Banc Mortgage Corporation
3200 West Iles Avenue
Springfield, IL 62711
Secondary Market
Corresponding Lending Program
Karen McVickers
888/821-7729

Community BancService Corporation
901 Community Drive
Springfield, IL 62703
Access to Top Quality Products and Services
Mike Duke
217/529-2265

Community Bankers Association of Illinois Communications Department
901 Community Drive
Springfield, IL 62703
Valerie Johnston
217/529-2265

Harland Clarke
15955 La Cantera Parkway
San Antonio, TX 78256
CBSC Preferred Provider of Check Printing, Direct Marketing & MCIF
Diane Schipkowski
210/697-8888

SomerCor
601 South LaSalle Street, Suite #510
Chicago, IL 60605
Information on SBA 504 Loans
Kimberly Brisky
Elisabeth Williams
312/360-3330

Attendees interact with one another during one of Sonya's sessions.

Consumer Lending Institute

The highly successful, three-day Consumer Lending Institute, which met October 7-9, 2019, in the SHAZAM Education Center at the CBAI Headquarters in Springfield, attracted 14 bankers. **David Kemp**, president and founder of **Bankers Management, Inc.,** of Atlanta, GA, led the instruction. **Tim Tedrick**, partner from **Wipfli's** Sterling office, taught the session dealing with regulatory compliance. ■

Row 1 (l-r)
Maggie Cecil, Bank of Farmington
Ali Williamson, First State Bank of Olmsted
Marlena Scrogham, Prospect Bank, Paris
Aubrey Seibert, Citizens National Bank of Albion
Addie Moranville, Beardstown Savings, s.b.

Row 2 (l-r)
Jaime Atkinson, First National Bank of Pana
Taylor Heiser, The Fisher National Bank*
Melissa Lanter, Citizens Community Bank, Mascoutah
Ashley Killius, First State Bank of Olmsted
Rebecca Lee, Bank of Pontiac
McKenzie Wolfe, Casey State Bank
Dillon Clark, Litchfield National Bank
Michele Orsborn, First National Bank of Nokomis
Linda Leach, Petefish, Skiles & Co. Bank, Virginia
Tricia Funston, The First National Bank of Sparta
Michelle Hall, Prospect Bank, Paris
Spencer Cunningham, Mason City National Bank

Row 3 (l-r)
Jack Martin, Rochester State Bank
Tanner Picton, MidAmerica National Bank, Canton
Bryan Coffey, The Iuka State Bank
David Kemp, Bankers Management, Inc., Atlanta, GA
Sam Dixon, CNB Bank & Trust, N.A., Carlinville
Jake Strabala, Ottawa Savings Bank
Carla McGrew, The Fisher National Bank*
Tyler Lentz, North Adams State Bank, Ursa*
Dirk Conrady, State Bank of Lincoln
Gabe Newbury, Ottawa Savings Bank
Michael Flaar, First National Bank & Trust Company, Clinton

**denotes Career Development Division member*

This and That

Jerry Cavanaugh, CBAI General Counsel, Springfield, IL

In this CBAI Legal Link column, I am touching on topics that I find worthy of mentioning, or worthy of reinforcing if I have written about them on some previous occasion. At least I don't have to reprint my typical disclaimer about my summaries of a judicial opinion in a court case, but I will still take this opportunity to underscore that I am not the attorney for any financial institution, and what follows in this column is for informational purposes only and is not a substitute for legal consultation with, and advice from, your bank's attorney.

Expiration of authority as Power of Attorney agent

In a Power of Attorney ("POA") scenario, the person who grants the authority is the Principal and the person to whom POA authority is conveyed is the Agent. At all times while (s)he is alive, the Principal controls all aspects of the POA, including its length. (S)he may put an expiration date in the original written POA instrument or may subsequently revoke or otherwise terminate the Agent's authority. If there is no stated duration and the Principal never terminates/revokes, the Agent retains POA authority until the moment of the Principal's death. By law, the Principal's death automatically terminates the POA authorization.

Is a bank in any legal jeopardy if it acts in good faith on an instruction from an Agent whose authority has been terminated either by the voluntary decision, or by the death, of the Principal? The answer is no, because Section 2-8(c) of the Illinois Power of Attorney Act immunizes a bank that relies on an instrument "purporting to establish an agency," including safe harbor for the presumptions that: (1) the written POA instrument was validly executed; (2) the Principal-Agent relationship was legally established; (3) at the time of executing the POA instrument, the Principal was legally/mentally competent; (4) at the time of the bank's reliance, the Principal was alive; (5) the POA authority was never terminated or amended; and (6) the acts or assertions of the Agent comply with the law under the Illinois Power of Attorney Act.

Furthermore, subsection (d) in that same Section states that a bank "shall" comply with instructions of the person

purporting to be the Agent and the bank may be liable for any civil damages that might result as a consequence of the bank's decision to ignore or otherwise violate the instructions.

The only caveat that I will add is that "presumptions," even those stated in the statute, can be countermanded by commonly known facts. If somebody asserts tomorrow that they are acting as POA Agent for Princess Diana, it is highly unlikely that a court would give a bank the benefit of reliance on any safe harbor presumptions.

Subpoenas for records in bank's possession

An examination report falls within the definition of "confidential supervisory information" pursuant to Section 48.3 of the Illinois Banking Act and cannot be disclosed or provided to a third party or her/his attorney pursuant to a "request to produce" documents. Instead, an actual subpoena, summons, warrant or court order is required. If an attorney serves a Request to Produce on a bank seeking confidential supervisory information protected by Section 48.3, the bank should refuse to comply and should advise the requesting attorney/party that the bank will be prepared to comply with a subpoena, summons, warrant or court order. If you really want to show off, you can tell the requesting attorney/party that your refusal to comply with a Request to Produce is required pursuant to Section 48.3 of the Illinois Banking Act, as interpreted by Illinois Division of Banking Interpretive Letter #89-8.

If a request for documents (whether confidential supervisory information or a customer's private bank records), even in the form of a subpoena, comes from a federal law enforcement agency (e.g., FBI, IRS, etc.) the bank should begin assembling copies of the requested documents but should not turn them over to the federal agent until the bank is provided by the federal agent with a Certificate of Compliance with the federal Right to Financial Privacy Act of 1978.

Unlike Section 48.3, regarding confidential supervisory information, Section 48.1 of the Illinois Banking Act, which protects the privacy of customers' individual bank records, specifically mentions a "citation to discover assets" as providing authority equivalent to a subpoena or court order.

In Illinois, a subpoena for copies of a customer's bank records does not have to bear the signature of a judge or Clerk of the Circuit Court. Section 2-1101 of Illinois' Code of Civil Procedure validates a subpoena duces tecum even if it is issued and signed only by an attorney in the case. As with any subpoena for a customer's private bank records, Section 48.1 (d) of the Illinois Banking Act prohibits disclosure pursuant to the subpoena until after a copy of it has been mailed to the customer.

A bank is permitted to charge a fee for retrieving, copying and delivering records in response to a subpoena, but those fees may not exceed the fee schedules established by the relevant State or federal bank regulator. ■

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 (IL only), 217/529-2265 or jerryc@cbai.com.

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Updated: 12.05.19


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JANUARY 2020

14-15	Compliance Institute: Operations — CBAI Shazam Education Center, Springfield
17	HR Group A — CBAI Shazam Education Center, Springfield
22	Advanced Tax Returns — CBAI Shazam Education Center, Springfield
22	Branch Manager Group A — CBAI Shazam Education Center, Springfield
23	Advanced Tax Returns — DoubleTree by Hilton, Lisle/Naperville
23	HR Group D — DoubleTree by Hilton, Mt. Vernon
24	HR Group B — CBAI Shazam Education Center, Springfield
24	CEO Forum Group VII — DoubleTree by Hilton, Lisle/Naperville
28	2nd Quarter CBC Program — Crowne Plaza Hotel, Springfield
29	2nd Quarter CBC Program — DoubleTree by Hilton, Lisle/Naperville
29	CEO Forum Group III — CBAI Shazam Education Center, Springfield
31	HR Group C — Grizzly Jack's Grand Bear Resort, Utica
31	Branch Manager Group B — Grizzly Jack's Grand Bear Resort, Utica

FEBRUARY 2020

4	Compliance for Lenders — Drury Hotel, Mt. Vernon
4	Ag Lenders' Conference — Northfield Center, Springfield
5	Compliance for Lenders — CBAI Shazam Education Center, Springfield
11-12	IRA Institute — Northfield Center, Springfield
19	The "C" Conference — Crowne Plaza Hotel, Springfield
20	CBAI & CBSC Board Meetings — CBAI Shazam Education Center, Springfield

MARCH 2020

8-12	ICBA Convention — Gaylord Palms Resort, Orlando, Florida
17-19	Compliance Institute: Lending — CBAI Shazam Education Center, Springfield
25	Asset/Liability Management: Investments, Liquidity, & Interest-Rate Risk — CBAI Shazam Education Center, Springfield
31-1	A Lenders' Guide to Mortgage Loan Compliance — CBAI Shazam Education Center, Springfield

CBAI *Foundation for Community Banking*

FOUNDATION REPORT

Donation News

David Pirsein, First National Bank in Pinckneyville, reached the Gold-level of giving.

Jerry Cavanaugh, CBAI, made a donation to the Foundation.

The Rinky Dinks made a donation to the Foundation in memory of **Charles Helleny.**

Steve Feith, Waterman State Bank, won a $1,000 donation to the charity of his choice, which he contributed to the Foundation.

Board and committee members of the CBAI corporate family donating travel expenses to the Foundation are: **Burnel Beckman, Dieterich Bank, Effingham; Jeff Bonnett, Havana National Bank; Sheila Burcham, Community Trust Bank, Irvington; Will Coolley, Longview Capital Corporation; John Dosier, First Southern Bank, Marion; Chris Gordon, Community State Bank, Galva; Dan Graham, Flora Bank and Trust; Mary Jo Homan, Chester National Bank; David Loundy, Devon Bank, Chicago; Doug Parrott, State Bank of Toulon; David Pirsein, First National Bank of Pinckneyville; David Stanton, PeopleFirst Bank, Joliet; Alan Stremlau, Illini State Bank, Tonica; Jim Weast, Warren-Boynton State Bank, New Berlin; and Bill Wubben, Apple River State Bank.**

The Foundation received $140 from CBSC and CBAI board members as a result of the "dress-down" board meeting in October.

Banknotes

COMMUNITY BANKERS
ASSOCIATION OF ILLINOIS
901 Community Drive
Springfield, IL 62703-5184