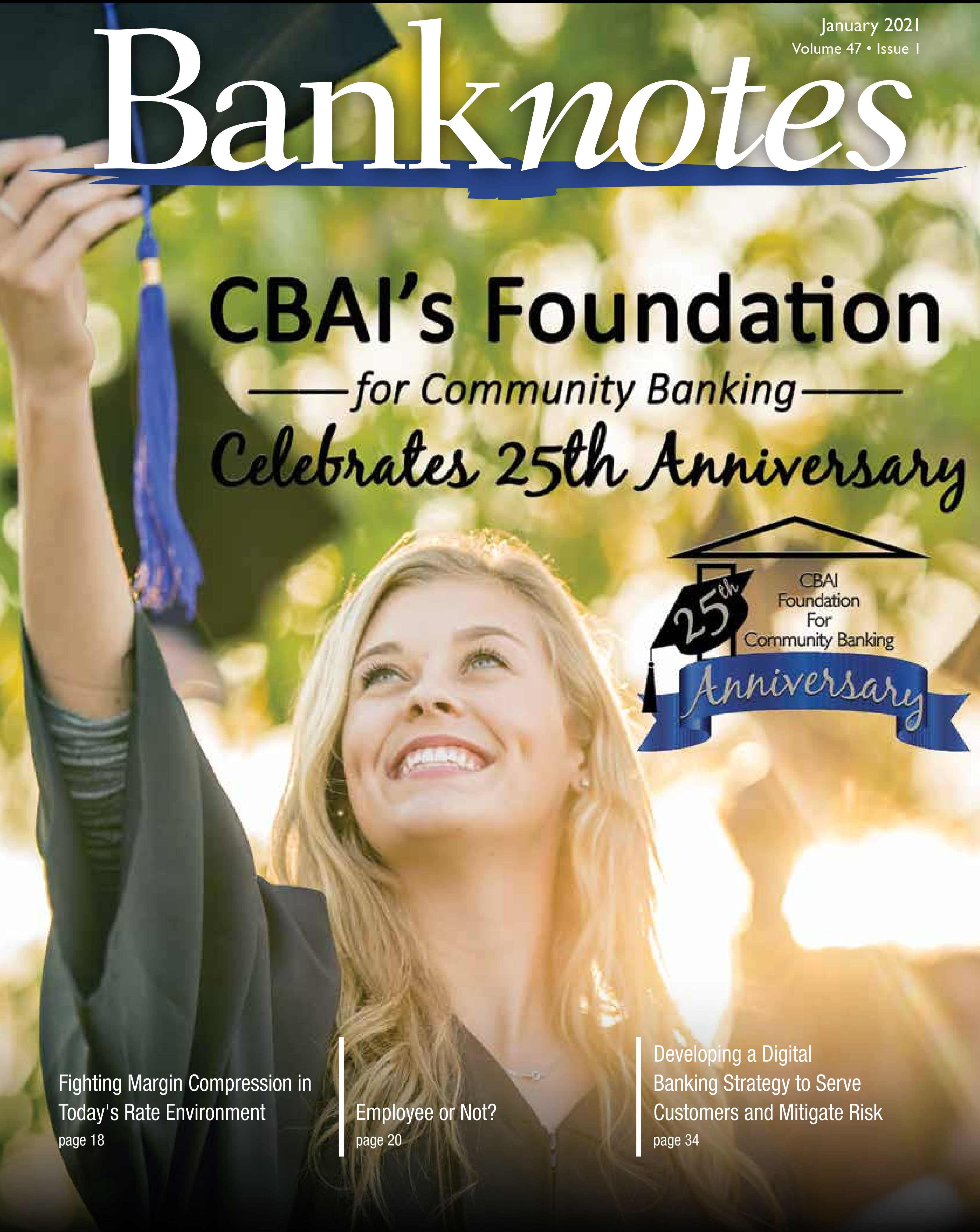
OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS ASSOCIATION OF ILLINOIS

Banknotes

January 2021
Volume 47 • Issue 1



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PUBLISHED FOR
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CBAI Foundation for Community Banking *Celebrates 25 Years*

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.

The Foundation was created to fund CBAI's original scholarship program, which was an essay contest for high school seniors, established in 1987. The Foundation also strives to increase public awareness of community banks and their contributions to society. Five years after the launch of the Foundation, the Child of a Banker Scholarship was added, in 2001. The Community Bankers School Scholarship was established in 2013.

Not only is this the 25th Anniversary of the Foundation, this year, the number of students benefiting from these scholarships since it began will surpass 500! 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. To celebrate the Foundation's silver anniversary, CBAI is spearheading a special "25 for 25" Campaign. There are several different ways to participate.

History of the Foundation

1987 (Pre-Foundation)
The original scholarship program was founded as an essay-writing contest for Illinois high school seniors.

1996
The CBAI Foundation for Community Banking was established as a mechanism to fund the original scholarship program. The Foundation was registered as a 401(3)(c) corporation. Its mission is educationally oriented, with the hope of expanding its programs to educate bankers, the public, legislators and the media.

2001
The Child of a Banker Scholarship was established as those individuals are not eligible for the essay scholarship program. Also, part-time bank employees are eligible for this scholarship as they are also precluded from participating in the Scholarship Program.

2007
The Child of a Banker Scholarship was renamed the SHAZAM Scholarship when the firm expressed an interest in establishing a named scholarship for a large donation.

2013
Two additional Child of a Banker Scholarships were established in the names of Kasasa and CBSC. The Community Bankers School Scholarship was also established that year as an (unnamed) general scholarship. Additionally, second-place payouts were approved to be offered in each CBAI Group in the original scholarship program; each payout was to be $500.

2014
The Community Bankers School FHLBC Scholarship was added.

How can you help CBAI celebrate the Foundation's 25th Anniversary?

- Encourage your staff members to make a $25 donation to the Foundation.
- Offer to match staff donations up to $250, $2,500 or any amount you choose.
- Make a bank donation in honor of the 25th Anniversary, such as $250 or $2,500, or any $25 increment you wish.
- Increase your bank's current accumulated donation to attain the $2,500 mark, which is the Bronze donation level. (Once your bank's Foundation contribution reaches $2,500 for total accrued donations, your bank is automatically eligible for the Children and Grandchildren of Community Banking Scholarship and CBS Scholarship.)
- Celebrate the Foundation's silver anniversary by becoming a Silver-level sponsor. If your bank is already a $2,500 contributor, increase your bank's accrued donation to achieve the $5,000 Silver-level sponsorship.

Contributions in any amount are greatly appreciated! All banks, associate members and individuals donating to this campaign will be recognized in *Banknotes* magazine. Banks and associate members reaching the $2,500 Bronze level or $5,000 Silver level during the Foundation's silver anniversary year will also be recognized on social media, with a press release, and at CBAI's annual convention. Donors of $2,500 or more are also recognized on the Foundation Wall in the West Conference Room at the CBAI Headquarters and on the website.

Your charitable donations to the Foundation may be made by community banks; their employees, officers, and directors; and corporate supporters. **All donations are 100% tax deductible!**

Your support will help maintain the three types of Foundation scholarships.

CBAI Annual Scholarship Program

Via an essay-writing contest on a topic about community banking, high-school seniors from all over the state compete. CBAI offers 11 $1,000 scholarships, 12 $500 scholarships, and one $4,000 scholarship to the statewide winner — EVERY YEAR! There is no cost to your bank to participate!

Scholarships for Children and Grandchildren of Community Bankers

SHAZAM®, Kasasa, and Community BancService (CBSC) Scholarships are given annually in the amount of $1,000 per year for up to four years. Winners are chosen from banks which have pledged or donated a minimum of $2,500 to the Foundation. Eligible students are children or grandchildren of community bank staff or directors or part-time community bank employees.

2015

The general scholarship to the Community Bankers School was named for The Baker Group and the CBAI Career Development Division. A new scholarship was added for the Community Bankers School in honor of CBAI President Wingert. The scholarship, which ceased when Wingert retired as CBAI president, was distributed in 2015, 2016 and 2017.

2016

Howard & Howard Attorneys pledged $50,000 to the Foundation to establish a named scholarship to the Community Bankers School, with the first scholarships to be awarded for the 2017-18 school years.

2021

CBAI celebrates the 25th Anniversary of the Foundation with a special campaign.

Scholarships to the Community Bankers School

Four two-year scholarships for bankers to attend the Community Bankers School are available annually. Winners are chosen from banks which have pledged/donated a minimum of $2,500 to the Foundation. They are endowed by the Federal Home Loan Bank of Chicago, The Baker Group, CBAI Career Development Division (CDD), and Howard & Howard Attorneys.

As college tuition continues to increase dramatically, the need for these scholarships becomes even more essential. These statewide scholarships help deserving and hardworking young adults further their education and develop as tomorrow's leaders.

"For families, the financial crisis has negatively affected post-secondary affordability in many ways. Colleges will still need to charge tuition but may be forced to reduce financial aid. Meanwhile, the financial crisis has reduced family incomes, family assets and family economic stability. A financial scholarship has never been more valuable," said Kim McKee, chairman of the Foundation and president and CEO of North Central Bank, Hennepin.

The $40,000 in annual scholarships awarded every year are endowed entirely by your contributions. No part of the member dues goes to the Foundation. We rely solely on your donations to make these scholarships possible. Please help us continue to offer these invaluable scholarships by making a contribution to the Foundation. ■

Contact Valerie Johnston at valeriej@cbai.com or visit www.cbai.com for a donation form. Please return the form with your check made payable to CBAI Foundation for Community Banking, 901 Community Drive, Springfield, IL 62703.

2020 Scholarship Winner Testimonials

"I am sincerely honored to have been selected as the recipient of the CBAI Foundation for Community Banking Scholarship. Thank you for your generosity in these uncertain times. This scholarship will help me pursue my dream of becoming a physical therapist. Thank you again for your thoughtful and generous gift!"

- *Logan Krska, sponsored by First Community Bank and Trust, Beecher*

"I feel very honored winning the Community Banking 2020 annual scholarship. This money will greatly benefit my family and me when I attend Valparaiso University in the fall. I thank you all deeply for this award and I wish health and happiness to everyone."

- *Ethan McFarland, sponsored by Town Center Bank, New Lenox*

"Thank you so much for providing me with a scholarship! Your generosity means so much to my family and me! You are helping me achieve my goals and further my education more than you know!"

- *Mallory Pine, sponsored by First Neighbor Bank, N.A., Toledo*

"Thank you so much for offering the CBAI Foundation for Community Banking Scholarship to students like me to assist in our schooling costs. I was very thankful to have the opportunity to apply for the scholarship and I am very grateful to learn I am a recipient of this scholarship! This scholarship will definitely help me experience a great, higher level of education."

- *Kayla Runkle, sponsored by The State Bank of Pearl City*

"Thank you so much for the Goodfield State Bank and CBAI scholarships. It means a lot to have been chosen from all of the applicants. I will be using the funds as I further my academic career at Illinois State University, Bloomington."

- *Whitney Leman, sponsored by Goodfield State Bank*

"Thank you so much for selecting me as one of your scholarship winners. This money will be put to good use this fall at Butler College."

- *Eric Schafer, sponsored by First National Bank in Taylorville*

CBAI LEADERSHIP FOR 2021

WOULD YOU LIKE TO BE MORE INVOLVED IN CBAI AS A BANKER VOLUNTEER?

Contact Valerie Johnston at 800/736-2224 or cbaicom@cbai.com and let us know in what way you would like to participate!

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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 2020-21. Their time, consideration and thoughtful participation are most appreciated.

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Jana Rettig, Providence Bank & Trust, South Holland
Liz Soltis, Marquette Bank, Orland Park
Jenny Voss, Evergreen Bank Group

COMMUNITY BANKERS SCHOOL SUBCOMMITTEE

Bob Beverage, Co-Chairman,
Heartland Bank & Trust Co., Bloomington
Heather Jones, Co-Chairman,
CNB Bank & Trust, N.A., Carlinville (Taylorville)
Tera Backlund, Better Banks, Peoria (Bartonville)
Abigail Billington, Bank of Hillsboro
Rebecca Boyd, Longview Bank, Ogden (Newman)
Vanessa Doellman, West Central Bank, Ashland
Jamie Jones, First Robinson Savings Bank, N.A.
Ross Martin, First Robinson Savings Bank, N.A.
Shaun Schneider, First National Bank in Pinckneyville
Sarah Will, First Neighbor Bank, N.A., Toledo
Tony Williams, State Street Bank & Trust Co., Quincy
Corinn Wheeler, State Bank of Herscher

EDUCATION AUDITING SUBCOMMITTEE

Angela Lampley, Chairperson, The Bank of Herrin
Lisa Frerking, Citizens Community Bank, Mascoutah (Freeburg)
Chris Light, First Neighbor Bank, N.A., Toledo
Brenda Vohland, Farmers State Bank, Elmwood

EDUCATION MARKETING SUBCOMMITTEE

Tracy Bedeker, Chairperson, First Federal Savings Bank, Ottawa
Amy Christopher, First National Bank in Taylorville
Brian Davis, First Farmers State Bank, Minier (Bloomington)
Amy Golightly, North Central Bank, Hennepin (Ladd)
Stacy Huls, The Gifford State Bank
Hilary Patterson, Prairie State Bank & Trust, Springfield
Stephanie Pearson, Northwest Bank, Rockford

EDUCATION OPERATIONS AND TECHNOLOGY SUBCOMMITTEE

Julie Welborn, Chairperson, The Fisher National Bank
Tanya Cowan, Buena Vista National Bank, Chester
Rebekah Emery, Farmers National Bank, Prophetstown
Ryan Heiser, The Fisher National Bank
Matt High, Citizens State Bank of Milford
Nancy Mueller, Scott State Bank, Bethany
Phyllis Pence, Preferred Bank, Casey
Joe Peterson, Morton Community Bank
Jake Pietkiewicz, The Frederick Community Bank, Paxton
Don Roch, Havana National Bank
Matt Turley, CNB Bank & Trust, N.A., Carlinville
Jenny Dial, Community Bankers Association of Illinois, Springfield
Mike Duke, Community BancService Corporation, Springfield

WOMEN IN COMMUNITY BANKING SUBCOMMITTEE

Beth Cotner, Chairperson, Scott State Bank, Bethany
Ramona Knoblett, First Robinson Savings Bank, N.A. (Palestine)
Kathy Landess, Jersey State Bank, Jerseyville
Lori Pieper, Community State Bank, Galva
Valerie Stocks, Apple River State Bank (Warren)
Brenda Vohland, Farmers State Bank, Elmwood
Nichole Weber, The Frederick Community Bank, Paxton ■


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Save the Date!
September 23-25, 2021
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Watch for more information
soon on www.cbai.com!

PLAYING THE LONG GAME

Jerry Peck, Senior Vice President of Governmental Relations, CBAI

Successful political advocates play the long game. Effective trade associations address the current issues at hand while keeping an eye on the long-term interests of their members. Sometimes you win, sometimes you lose and sometimes you strike a compromise. Political wins and losses are simply milestones along the path, not an end in and of themselves.

In 2018, J.B. Pritzker successfully campaigned for governor with two main priorities: raising the minimum wage and instituting a progressive income tax. The freshman politician used his early popularity in conjunction with Democrat super-majorities in both legislative chambers to champion a $15 minimum wage. To nearly every political insider, it appeared that passage of the minimum wage hike would be inevitable, and they were correct. Many lobbying groups chose to sit out the fight not wanting to potentially anger the new governor by opposing his first signature legislative proposal.

DID YOU KNOW?
Since January 1, 2020, if a worker under the age of 18 works more than 650 hours for the employer during any calendar year, they must be paid the regular (over 18 wage).[1]

Despite overwhelming headwinds, there were a few trade associations who knew that it was still a fight worth fighting, believing their members deserved to have a seat at the table. CBAI joined with the Illinois Farm Bureau (IFB), Illinois Retail Merchants Association (IRMA), and Illinois Manufacturers' Association (IMA) in a coalition representing the voices of main street employers. Job creators claimed our seat at the table.

The minimum wage increase passed. That battle was lost, but the foundation was laid for the next battle in the war to protect Main Street; opposition to the progressive income tax. With a strong coalition already in place and credibility earned from our efforts in the minimum wage fight, farmers, community bankers, retailers and manufacturers were the very first groups to oppose the progressive income tax. We shared a united message. While a constitutional amendment was still being drafted in the General Assembly, CBAI joined IFB, IMA and IRMA on a statewide media tour to fire the first shots in the battle against the progressive income tax.

CBAI also joined the larger Coalition to Stop the Proposed Tax Increase and provided resources through Community BancPac donations. The campaign to pass the tax increase was well funded, with $56.5 million from Governor Pritzker's personal fortune and countless donations from progressive groups. The opposition was largely able to match those funds and negate any fundraising advantage the wealthy self-funding governor could provide. It came down to who had the stronger message.

Voters understood that the so-called "fair tax" was inherently unfair to farmers and small employers and would hurt Main Street business. They sent a strong signal that they don't trust Springfield politicians with a blank check to continue with business-as-usual budgeting in Illinois. Our efforts paid off; this time the battle was won.

Celebration is fleeting. The progressive income tax was Governor Pritzker and progressive Democrat's attempt to address the serious fiscal crisis facing our state. Illinois is saddled with a $9 billion bill backlog and more than $260 billion in unfunded pension liabilities. The FY 20/21 budget has a $3.9 billion gap according the Governor's Office of Management and Budget (GOMB). The State borrowed $1.2 billion from a temporary Fed facility to keep the lights on. The governor announced they plan to borrow $2 billion more.

GOMB projects a $7.4 billion shortfall in the 2021 fiscal year with the absence of new revenues. They also project that if current conditions persist, the Illinois budget deficit will grow to $4.2 billion a year, with $33.2 billion in unpaid bills by 2026. That means that the bill backlog will equal nearly 70% of state spending for the year. Annual spending on pensions and education are expected to grow an additional $2 billion per year over the same period. Together with continually rising Medicaid and state employee health insurance costs, Illinois is on an unsustainable path that will require multiple tax increases year after year simply to keep pace.

And so, we continue to play the long game. For the past two years, CBAI has made it clear that the progressive tax debate wasn't about whether there would be a tax increase or not, but simply who would bear the burden of the inevitable new taxes. A progressive tax would have given politicians a blank check to continually raise rates on a select group of taxpayers to cover ever-increasing budgetary shortfalls. Sticking with a flat tax makes it much more difficult to continue unchecked spending. Under a flat tax, everyone shares in an increased burden. For politicians to justify raising taxes, they will also have to show constituents that they are taking steps to curb spending and enacting reforms that put Illinois on a path to long-term fiscal stability.

That path to stability will be painful. It will include deep cuts in state spending along with reforms to programs previously considered sacrosanct. Reconsidering the tax-exempt status of credit unions, the taxation of retirement income, and hundreds of other revenue-generating proposals will be on the table for consideration. A rise in the individual tax rate appears inevitable, the only question is how high will they make it?

Community bankers have worked hard to earn a seat at the table representing Main Street business interests. We have an opportunity and a duty to advocate for spending cuts, reforms and even responsible tax increases that will return our state to long-term fiscal stability. It won't happen overnight. Along the way we will celebrate wins, suffer losses and negotiate compromises. CBAI will continue to play the long game because we believe that no matter the odds, community banks, Main Street businesses and the State of Illinois are all worth fighting for. ■

Jerry Peck is senior vice president of governmental relations at CBAI. He can be reached at jerryp@cbai.com or 800/736-2224.

[1]Source: www2.illinois.gov/idol/laws-rules/fls/pages/minimum-wage-rates-by-year.aspx

The Dispatch · The Rock Island Argus

Excerpt from *Retailers, Bankers Oppose Graduated Income Tax,* published in *The Rock Island Dispatch-Argus,* originally printed April 29, 2019.

Some leaders of the Illinois business community are opposed to Gov. J.B. Pritzker's proposed graduated income tax. Opponents say it will raise taxes across the board for all residents and businesses, sending a negative ripple effect through the economy.

In a meeting Monday with Dispatch-Argus editorial board members, four representatives of the business community made the case why moving to a graduated tax system would hurt the state.

"We live and die by the strength and health of small businesses," said Jerry Peck, senior vice president of governmental relations for the Community Bankers Association of Illinois.

"Not only would an increase in the income tax hurt (banks') bottom line, but it hurts the bottom line of our customers, the retailers, the farmers and the manufacturers, as well," Peck said.

FIGHTING MARGIN COMPRESSION IN TODAY'S RATE ENVIRONMENT

David Sheller, Senior Vice President, Financial Strategies Group, The Baker Group, Oklahoma City, OK

How We Got Here

In 2009, some said interest rates had nowhere to go but up. Well, Treasury yields found a way to continue to go down and stay down. The Fed took seven years to increase the funds rate by a quarter point at the end of 2015, then another quarter point increase twelve months later, followed by seven more quarter point rate hikes in 2017 and 2018. All nine rate hikes were undone by the Fed in a short amount of time, with three of the rate cuts coming in the latter half of 2019 as part of a "mid-cycle adjustment." The remaining cuts came in March as part of a historic monetary response from the Fed.

Interest Rate Risk

Since 2009, we have been looking at our interest rate risk models and fine tuning our assumptions in order to measure, monitor and control interest rate risk. Our ultimate goal was to answer the question, how much risk is there to our earnings and capital position if interest rates rise? To answer that question, we made sure our balance sheets were well positioned to take advantage of rising interest rates. That strategy allowed net interest margins to expand slowly but surely for several years as the Fed engaged in its most recent tightening cycle. But that was then and this is now. The Fed has put rates back at zero, and it is highly unlikely we will see an increase in rates in the next few years, if not longer.

At the start of 2020, most banks were well positioned for a rise in interest rates, not a freefall back to zero. Interest rate risk has already taken its initial hit on margins and there is likely more to come. Institutions who were able to extend asset yields before rates hit zero will fare better in the near term, but a prolonged low interest rate environment will eventually take its toll on all.

Fighting Margin Compression

The quickest way for institutions to fight margin compression is through lowering their deposit rates and overall cost of funds. Most bankers have aggressively cut deposit rates as banks have already unwound about half the increase to their costs of funds experienced during the previous Fed tightening cycle. Most of the room left to cut will be on CD rates, which saw the biggest increase in the last few years. If you are worried about deposit runoff should you continue to lower rates, consider replacing those deposits with cheap wholesale funding.

Yields on earning assets have fallen since year-end 2019 for two reasons: lower interest rates and excess liquidity on the balance sheet. As of June 30, 2020, the average community bank was holding approximately eight percent of total assets in interest-bearing balances, with most of those dollars likely held at the Federal Reserve earning 10 basis points. Most of that excess liquidity came in so fast that some bankers haven't had sufficient time to strategize on where to deploy it.

Staying Fully Deployed

Holding on to too much cash and waiting for rates to go up is not the conservative play. Margins can't afford it. If quality loan demand is available, make the loan; if not, you need to earn more than 10 basis points. Take a long look at your liquidity position and decide how much you are able to deploy into the investment portfolio. No one loves today's bonds yields, but don't compare them to where they were a year ago. Instead, compare them to the alternative, which is holding them in low earning cash. There are only so many levers we can pull to fight margin compression, and we need to start as soon as possible. ■

Dale Sheller is senior vice president in the Financial Strategies Group at The Baker Group. He joined the firm in 2015 after spending six years as a bank examiner with the Federal Deposit Insurance Corporation. Sheller holds a bachelor's degree in finance and a master's degree in business administration from Oklahoma State University, Stillwater. He works with clients on interest rate risk management, liquidity risk management, and regulatory issues. Contact: 800/937-2257, dsheller@gobaker.com.

Employee or Not?

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

Why does the answer to this question matter? Well, it does if you have employees, couriers, security guards, maintenance workers, vendors or independent contractors perform duties for your community bank. Beyond the expense factor of their service, there's the issue of who is responsible in the event of dishonesty, bodily injury or property damage.

An **employee** is a person who is hired for a wage, salary, fee or payment to perform work for an employer. *This is important to determine if one is acting as an employee when injured (for workers' compensation) or when he/she causes damage to another, thereby making the employer liable for damages to the injured party and/or property.* A **W-2** Wage & Tax Statement would be a formal proof document of employment that an employer is required to send to each employee and to the IRS at the end of the year to report the employee's annual wage and amount of taxes withheld from their paychecks.

An **independent contractor** is a person, business or corporation that provides goods or services under a written contract or a verbal agreement. Unlike employees, independent contractors generally do not work regularly for an employer but work as required when they may be subject to law of agency. Independent contractors are usually paid on a freelance basis; self-employed individuals who report nonemployee compensation income on **Form 1099.** Contractors often work through a limited company or franchise which they themselves own or may work through an umbrella company.

Consider this: by the end of the Third Quarter 2020, the Department of Labor (DOL) released a proposed regulation that would provide a model for when businesses may legally classify workers as independent contractors rather than employees, who are covered by federal minimum wage and overtime laws. The proposed rule adopts an "economic reality" test for determining which workers qualify as independent contractors. Contractors must be in business for themselves rather than being economically dependent on the possible employer for work.

Under this test, the DOL would identify two core factors: 1) the nature and degree of the worker's control over the work, and 2) the worker's opportunity for profit or loss based on initiative or investment. Three other factors may serve as additional guidance: the amount of skill required, the degree of permanence between the worker and the potential employer, and whether the work is part of an integrated unit of production.

The legal distinction as to how a worker must be classified has broad implications – and potential negative consequences for mischaracterization – for both employer and workers alike. Under a standard **Fidelity Bond,** the loss must be *directly from dishonest or fraudulent acts committed by an employee,* acting alone or in collusion with others, with the intent to cause the employer to sustain a loss or to obtain improper financial benefit. Only the *employee-employer relationship applies,* otherwise, no intention by the insurer is granted to indemnify for actions by outside independent contractors.

ANY Third-Party Fidelity exposure for a community bank hiring couriers, security guards, maintenance workers, vendors or independent contractors should be protected by a Business Services Bond.

FACT

ANY Third-Party Fidelity exposure for a community bank hiring couriers, security guards, maintenance workers, vendors or independent contractors should be protected by a Business Services Bond.

The surety would indemnify for actions of the non-employee against direct loss of money or other property from any and all "subscribers" defined as any person, firm or corporation for whom the business performs a service in his, her or its business.

This includes belongings or other property in which the community bank has a monetary interest or for which they're legally liable and sustain such a loss from any dishonesty act of an employee or employees of the business service provider whether acting alone or in collusion with others for which their employer (the business service) may be liable.

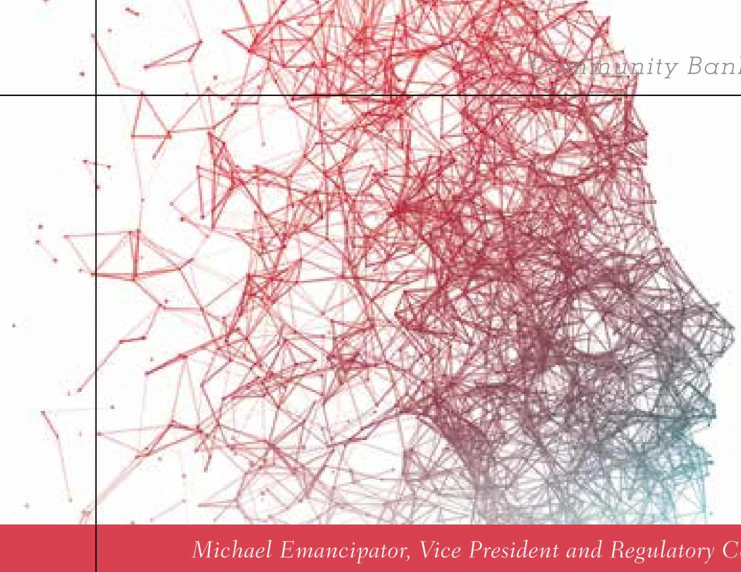
A dishonesty act is further defined to mean a fraudulent or dishonest occurrence causing loss during the time the employee is engaged in services on behalf of the community bank and that is punishable under the Criminal Code in the jurisdiction within which the occurrence took place, for which said employee is tried and convicted by a court of proper jurisdiction and only in an amount not to exceed the amount stated in the conviction and no greater than the limit stated in the Business Services Bond.

Occurrence means all loss(es) caused by or involving one or more employees, whether the result of a single act or a series of acts, without regard to the number of clients involved. *Just as in a standard fidelity bond, there is no coverage for any employee known to have committed any prior act of dishonesty nor any further coverage once dishonesty is discovered.* Reporting requirements, term of coverage, cancellation provisions, etc. may differ among insurers.

For all of the reasons outlined above, couriers need to be carefully vetted by the community bank to avoid serious monetary loss due to non-employee status, the possibility of prior dishonesty termination exclusion, and any funds less than the in-transit deductible. ■

For any questions, please contact Community BancInsurance Services, a division of Arthur J. Gallagher & Co., the exclusively-endorsed insurance representative of CBAI/CBSC. Ask for Patti Tobin, CIC, insurance advisor, area financial institutions director at 217/414-4485 or patti_tobin@ajg.com.

This article is provided for informational purposes only and is not necessarily the views of Arthur J. Gallagher & Co.



As Artificial Intelligence and Machine Learning Evolve, Regulators Eye Bank Usage

Michael Emancipator, Vice President and Regulatory Counsel, ICBA

As we continue to see regulatory focus on innovation and emerging technologies, it comes as no surprise that the agencies may be turning their attention to artificial intelligence (AI) and machine learning (ML) and how they are being employed at the bank level.

In fact, late last year, the federal agencies issued an Interagency Statement on the Use of Alternative Data in Credit Underwriting, which began offering some guidance on these topics. While recognizing the potential of such technologies and the benefits they can bring to consumers, the statement cautions financial institutions to consider the impacts of their use, particularly as they relate to: fair lending laws; prohibitions against unfair, deceptive, or abusive acts or practices; and the Fair Credit Reporting Act. This guidance strikes a balance between encouraging "responsible use" of data and reminding banks of certain lending regulations.

And while the guidance moves the ball in the right direction, ICBA is working to ensure that community banks have sufficient information to utilize these technologies to the fullest and in accordance with applicable regulatory laws. So, when the Federal Reserve, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, and the Consumer Financial Protection Bureau reached out this summer to meet on AI and ML, ICBA made sure community banks were at the table.

Determining Use Cases for AI and ML

In what quickly became a discussion about use of these technologies, ICBA shared member feedback concerning potential benefits for community banks and their customers.

Perhaps most importantly, we emphasized the novelty of the technology and cautioned regulators from prematurely creating parameters around their use, which could stymie market development. Some regulators are still reviewing their authorities relevant to AI applications. They will be submitting plans to the Office of Management and Budget to achieve consistency with an executive order on AI that President Trump issued in 2019.

Right now, the primary barrier to adoption of AI and ML is uncertainty with examiner expectations. And while community banks could benefit from regulatory clarity, it is also clear that any specific guidance at this juncture would supersede actual use cases.

That is why we encouraged regulators to let the market mature further before putting up any potential guardrails or prohibitions. Instead, we recommended they provide illustrative examples of permissible data inputs and approved back-testing models.

AI and ML represent the next level of technology, allowing for more efficient underwriting, risk management and other processes. But in and of themselves, they do not create new products or answers.

For example, in the case of lending, AI and ML can help to provide an additional data-rich complement to a FICO score for underwriting. But when evaluating it through this lens, it is important to recognize that it is not the technology itself that warrants scrutiny; it is the application of the technology that needs to be evaluated.

With projections that AI and ML can save the financial services industry $1 trillion, we expect that it will continue to take hold in banking, offering efficiencies in everything from lending processes to risk management solutions. But, just like all technology that community banks may use or partner with others to use, it is important to thoroughly understand it and know how to mitigate any associated risks.

Community banks can identify the sweet spot between risk and innovation that allows them to leverage AI and ML for the customer's benefit and ensure compliance in the process. And ICBA will continue to work with regulators and others to support this evolution. ■

Michael Emancipator is ICBA vice president and regulatory counsel.

+ DID YOU KNOW?

Artificial Intelligence was invented in 1955 by Allen Newell, Cliff Shaw, and Herbert Simon. They developed the *Logic Theorist*, which was a program designed to mimic the problem solving skills of a human.[1]

[1]Source: http://sitn.hms.harvard.edu/flash/2017/history-artificial-intelligence

Haley Guisti, North Central Bank, Hennepin, was honored with the Outgoing Chairman award.

CDD Fall Meeting

Nearly 30 members gathered for the 2020 Annual Fall Meeting of CBAI's Career Development Division (CDD) on October 20th at the Northfield Center in Springfield. The evening prior to the meeting, CDD members participated in a fun, yet socially distanced musical bingo event where the on-site DJ played a portion of a song and the CDD members had to figure out the name of that musical artist, then mark if that artist was on their bingo card. It became very competitive, and despite the different feel to the meeting this year due to the pandemic, members agreed it was an awesome event!

This year's Fall Meeting began with Elaine Hand surprising the group in her signature "witch" look and kicking off the conference with her session "Welcome to Fight Club." She continued speaking throughout the day and was joined via Zoom by Jody Holland of Jody Holland Consulting with the sessions "Vulnerability & Trust," "How We Function in the New Norm," and "Write the Future."

Jerry Peck, CBAI senior vice president of governmental relations, provided CDD members with a legislative update.

During the Annual Business Meeting Luncheon, Jerry Peck, senior vice president of governmental relations, gave a legislative update. **Haley Guisti, CDD chairman and group 5 director with North Central Bank, Hennepin (Ladd),** conducted the election of odd-numbered group directors. Members were then updated on the status of CDD regarding membership and finances. Guisti reported that dues from the more than 150 members remain the largest source of income; however, the Fall and Spring Meetings make a significant fiscal contribution. **Bob Stachowski with First National Bank of Sandoval** was elected as CDD Chairman with **Cameron Ohlendorf, First Community Bank & Trust, Beecher,** as the CDD Secretary/Treasurer.

Cameron Ohlendorf, First Community Bank and Trust, Beecher, (L) was elected as CDD Secretary/Treasurer and Bob Stachowski, First National Bank of Sandoval, was elected as CDD Chairman

During this meeting, the **CDD Career Banker of the Year** was announced with **Ryan Heiser, The Fisher National Bank,** receiving this prestigious award.

The CDD members also participated in a "dress down" day where members wore jeans for a $5 donation, which raised $110 and benefited Community BancPac. ■

Ryan Heiser, The Fisher National Bank, was named the 2020 CDD Career Banker of the Year.

Elaine Hand, dressed in Halloween attire, kicks off the conference with "Welcome to Fight Club."

Consumer Lending Institute

The three-day Consumer Lending Institute may have looked a bit different this year, but this highly successful and socially distanced institute met October 6-8, 2020, in the SHAZAM Education Center at the CBAI Headquarters in Springfield. The institute attracted 16 bankers. **David Kemp,** president and founder of **Bankers Management Inc.,** Atlanta, GA, and **Tim Tedrick,** partner from **Wipfli's** Sterling office, led this institute. The list of graduates is below.

James Batson, III,
First State Bank of Campbell Hill

Brandon Beaver,
Community Trust Bank, Irvington

Matthew Browning,
Farmers National Bank of Griggsville

Emilee Carter, The Fisher National Bank

Bridget Dempsey, Granville National Bank

Miranda Edenburn, Gifford State Bank

Colton Fieldman, Bank of Pontiac

Richlyn Hoener,
United Community Bank, Carthage

Stacey Huls, Gifford State Bank

Alex Palmer,
United Community Bank, Springfield

Christopher Pickett,
Buena Vista National Bank, Chester

Clint Reiman,
First State Bank of Campbell Hill

Lauren Robinson,
The FNB Community Bank, Greenville

Brandon Shaon,
First Neighbor Bank, N.A., Toledo

Reid Slayback,
United Community Bank, Springfield

Mark Thompson, Rushville State Bank ■

Women in Community Banking Raise Money for Breast Cancer Awareness in Lieu of 14th Annual Conference

For the past few years, the Community Bankers Association of Illinois' Women in Community Banking Conference has raised money for breast cancer awareness. This October, in lieu of the annual conference, CBAI encouraged member banks who would normally attend the event to participate in a month-long fundraiser to continue to support this cause. All funds were collected at the end of the month by CBAI and donated to Susan G. Komen Breast Cancer Foundation for breast cancer research on behalf of CBAI Women in Community Banking. CBAI and several member banks participated by holding dress down days, basket raffles, and other fundraisers to raise money, including State Bank of Toulon; Apple River State Bank; Jersey State Bank, Jerseyville; Buena Vista National Bank, Chester; First Robinson Savings Bank; CNB Bank & Trust, N.A., Carlinville; and Scott State Bank, Bethany. In total, CBAI was able to make a $5,261 donation to the fight against breast cancer. ■


Jersey State Bank donated items to local cancer patients to show their support!


CBAI's Jennifer Nika, fundraiser organizer, (L) presents the holiday basket prize to raffle winner Valerie Johnston.


Scott State Bank employees wearing their pink t-shirts!

CNB Bank & Trust raised money by wearing pink on Fridays in October!

Women in Community Banking Sub-Committee:

Chairperson Beth Cotner, Scott State Bank, Bethany

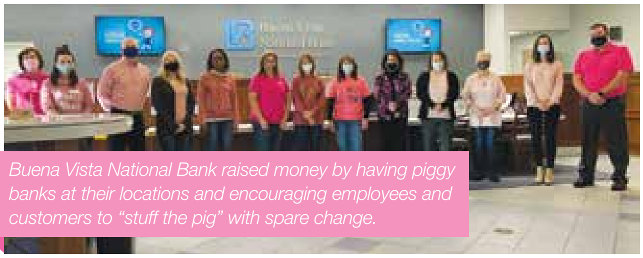
Ramona Knoblett, First Robinson Savings Bank, N.A.

Kathy Landess, Jersey State Bank, Jerseyville

Lori Pieper, Community State Bank, Galva

Valerie Stocks, Apple River State Bank

Brenda Vohland, Farmers State Bank of Elmwood


Buena Vista National Bank raised money by having piggy banks at their locations and encouraging employees and customers to "stuff the pig" with spare change.


First Robinson Savings Bank basket raffle winner Connie Clough

Robert Stachowski

CDD Chairman, Loan Officer,
The First National Bank of Sandoval

CDD SPOTLIGHT

What do you find most challenging about your job?

Time. It's hard to find enough time in the day to do all the tasks you need to do. Community bankers usually have to "wear several hats," but we only have one head. It's a challenge to prioritize what needs to be done first, especially when there's time restraints, like TRID, complicating it even more. It's a challenge, but it keeps every day from being the same. It keeps you on your toes and doesn't let you get too comfortable, and I like that.

What do you find most rewarding about your job?

I love that I'm able to help people. As a lender, there's nothing better than helping somebody buy their dream home or helping them purchase their kid's first car. But it's more than just granting loans. I'll sometimes sit with somebody I've denied for a loan for hours and advise them on what to do so we can turn that "no" into a "yes." Our relationship doesn't end at a denial. In fact, several times it begins that way. I always tell everybody that they can call me and ask for advice on anything any time, whether they're a customer or not. When people leave my office, I want their lives to be better than they were when they entered it.

What quote most inspires you and why?

"Live as if you were to die tomorrow. Learn as if you were to live forever." – Ghandi

Tomorrow's not guaranteed, so get the most out of each day while you can, and no matter what, you can never know everything. Knowledge really is power, so try to learn something new every day.

How did you get involved with CBAI?

My bank is a CBAI member. When I became a new lender, I attended several classes and institutes, so I became more familiar with the organization. My bank's president is actually a former CDD Chairman, and he strongly encouraged me to join the CDD. I'm glad he did, and now as the current chairman, I have some big shoes to fill. I absolutely look forward to the challenge and to being more involved with CBAI in the future.

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

I'm a big Dave Matthews Band fan and cover artist. I'll play open mic nights every now and then and should really do them more often. I have always wanted to put together a Dave Matthews Band cover band, so if there's any saxophonists, violinists, bassists, or drummers out there that love DMB, let me know!

What are the biggest challenges your community bank faces today and what are you doing to combat these challenges?

I think relevancy and product availability are two big obstacles for community banks. In today's world, people are bombarded with advertisements and commercials from the big banks, and they're able to offer some services that smaller community banks aren't able to provide. Big banks are able to spend millions on marketing and technology, so they usually have an advantage in that aspect. It can be tough to keep up, so it's necessary to constantly upgrade our technology and products to be able to gain and retain customers. If we can provide the same technology and services as the bigger banks, and combine that with our already superior customer service, then the sky's the limit for community banks.

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

Before I was in banking, I was in retail. I actually loved it! I was in merchandising, so I was always the guy that set up product displays, organized floor plans, assembled grills and patio furniture, and handled the marketing and pricing, as well. If I were to leave banking, I'd probably go back to retail, but I have no plans on ever leaving the banking industry! ■

6 Lessons Learned from a Bank's $400 Million Mistake

Michael Berman, Founder & CEO, Ncontracts

What does it take to get a $400 million civil money penalty for data governance, risk management and internal controls resulting in unsafe or unsound practices?

That's what everyone is asking since the Office of the Comptroller of the Currency hit Citibank with a $400 million civil money penalty while the Fed released its own enforcement action against the megabank. The agencies are requiring Citi to take corrective action (beginning at the board level) to remediate an enterprise risk management (ERM) program that has repeatedly failed. Where did Citi go wrong and how can you avoid its mistakes? Here are six lessons learned:

Lesson #1: Correct Deficiencies

The Fed's enforcement action shows that Citi was not on top of findings management. Both a March 2013 consent order to remediate deficiencies in Citigroup's anti-money laundering compliance program and a May 2015 order to remediate compliance and control infrastructure deficiencies relating to its foreign exchange program and designated market activities had not been satisfactorily addressed. Systemic failures contributed to violations of the Fair Housing Act and the Flood Disaster Protection Act.

It seems like Compliance Management 101, but it is amazing how often financial institutions fail to correct deficiencies and report on progress. Don't let findings management slip between the cracks. A transparent, centralized audit and exam findings management program can help you access, manage and analyze findings in real-time.

TASK FORCE
A compliance management system (CMS) is how a financial institution learns about its compliance responsibilities, incorporates them into business policies, ensures employees understand them and carry them out, and takes corrective action as needed.

Lesson #2: Make Sure ERM and Compliance is Appropriate for Your Size

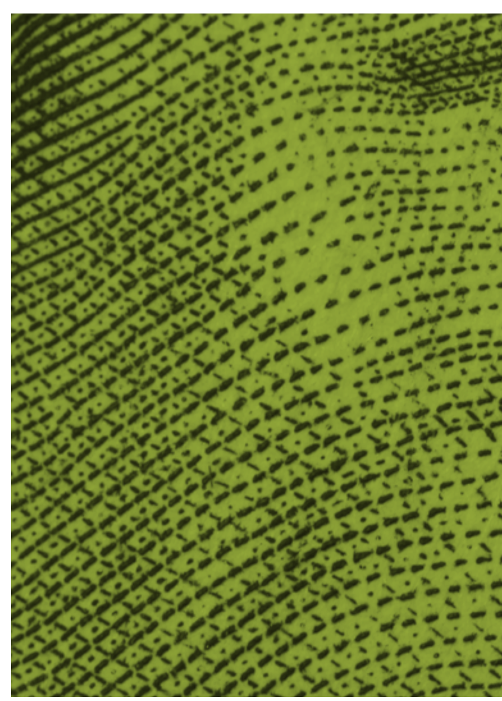
The OCC says that Citi didn't implement or maintain an ERM and compliance risk management program, internal controls or a data governance program commensurate with its size, complexity and risk profile. As a large bank, Citi is subject to additional requirements and failed to establish:

- Effective front-line units and independent risk management;
- An effective risk governance framework;
- Policies, standards and frameworks to adequately identify, measure, monitor and control risks; and
- Compensation and performance management programs to incentivize effective risk management.

The regulatory agencies have given financial institutions a lot of flexibility when it comes to risk management and compliance management because they know that one size doesn't fit all. Rather than dictate exactly how programs should be structured, they instead lay out broad requirements so that FIs can develop programs appropriate for their size, complexity and risk profile. Don't mistake flexibility for leniency. The regulatory agencies expect to see a strong enterprise risk management program and the rationale behind it. Enterprise risk management software can help you proactively manage risk.

Lesson #3: The Board Will Be Held Accountable

The Fed's enforcement action repeatedly mentions that the board needs to do a better job overseeing senior management. That includes:



- Holding them accountable for meeting remediation deadlines;
- Ensuring the creation and maintenance of effective, independent ERM and findings management programs;
- Aligning compensation with risk management objectives; and
- Requiring effective reporting.

The OCC says that senior management oversight was inadequate to ensure timely, appropriate actions and its inadequate reporting hindered effective board oversight.

This is a reminder that when senior management fails, it means that the board—as overseer of senior management—has failed, too. The board needs enough risk and compliance management knowledge to recognize and question management when it appears to be falling short of expectations.

Lesson #4: Compliance is Built on the Fundamentals

The Fed wants Citi to evaluate where compliance went wrong and is telling the bank to go back to the basics. Citi needs to analyze material compliance risks by regulation/law, assess existing controls, develop measures to improve weak controls, and develop a timeline for completion.

The OCC says Citi has to create a compliance committee with at least five members with majority independent board directors. The committee has 120 days to report quality as well as updates on corrective actions and milestones.

The basis of any compliance program is a compliance management system (CMS). A CMS is how a financial institution learns about its compliance responsibilities, incorporates them into business policies, ensures employees understand them and carry them out, and takes corrective action as needed.

Lesson #5: Don't Fall into the Gap

The Fed said risk management policies, procedures and internal controls were stymied by insufficient staff training and expertise, undefined roles and an inappropriate escalation framework. It's requiring a gap analysis of these areas to identify weaknesses and remediate them in a timely manner.

This problem could have been avoided if Citi had been proactive about measuring the effectiveness of its ERM and compliance programs. Having a risk management program in place is only half the battle. The other half is having internal controls to make the program effective and then regularly assessing the program's performance. Make sure you're regularly auditing your program to uncover weaknesses.

Lesson #6: Risk Management Requires Good Data

The Fed is requiring Citi to ensure it has timely, sufficient data on capital planning, liquidity and compliance risk management to inform its ERM system and internal controls decisions. That includes how it will assess the accuracy and timeliness of the data.

Risk management informs strategic decision making. When risk management is based on poor data, it does nothing to promote strategic decision making. Make sure you develop and maintain accurate risk indicators and other metrics for risk management.

Until these issues are resolved, the OCC says Citi needs its approval before significant acquisitions. The OCC can also require changes in senior management if the board doesn't meet progress deadlines.

Make sure your FI avoids Citi's mistakes with strong findings management. ■

Michael Berman is the founder and CEO of Ncontracts, a leading provider of risk management solutions. His extensive background in legal and regulatory matters has afforded him unique insights into solving operational risk management challenges and drives Ncontracts' mission to efficiently and effectively manage operational risk. For more information, visit www.ncontracts.com or contact Berman at mlb@ncontracts.com or 888/370-5552.

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In Memoriam

Timothy D. Gover

Timothy D. Gover, 82, passed away on December 3, 2020, in Mattoon, IL. Gover was born on March 6, 1938, in Mattoon, the son of the late Daniel P. Gover and M. Josephine (McVay) Gover. Upon graduation from Mattoon High School in 1956, he attended Southern Methodist University in Dallas, TX, receiving his bachelor's degree in 1960. Gover received an M.S. in finance from the University of Illinois, Champaign-Urbana, in 1961.

From the U of I, he went to the University of Arkansas at Fayetteville, where he was instructor of economics and also worked on a doctorate. It was there where he met the love of his life, Marilyn Schof, who was working on an MBA degree. They were married on August 31, 1963.

They both joined the faculty of the School of Business at Eastern Illinois University in 1963. Gover began as an assistant professor of marketing and advanced through the ranks to his eventual position of professor of finance. During his years at Eastern, Gover authored more than 30 articles which were published in banking and other periodicals. After 32 years as a faculty member at Eastern Illinois University, Gover retired in 1995.

Gover served on countless committees and boards, including serving as a judge for the **BKD Award for Excellence and Innovation, presented by CBAI**, since its inception more than 20 years ago. He was a director of the **Greenup National Bank,** now a part of **First Neighbor Bank, N.A., Toledo.** He helped organize and was a director of the **Bank of Charleston,** now a part of **Prairie State Bank, Marengo.** He served on the board of directors of **First Federal Savings and Loan of Mattoon,** now a part of **Washington Savings Bank,** for 36 years.

In 2009, Gover was elected to the Mattoon City Council. Upon the resignation of Mayor David Cline, he was named mayor. Gover was re-elected mayor in 2013 and 2017 without opposition. Throughout his years of residence, Gover was a champion of promoting both the City of Mattoon and Coles County.

Gover is survived by his son, Edward T. Gover, and daughter-in-law, Bonnie, of Frisco, TX. He has two granddaughters, Lainey Gover of Dallas, TX, and Katie Gover of Kansas City, MO. Also surviving is one brother, Dr. Phil (Joyce) Gover of San Antonio, FL; and several nieces and nephews. Gover was preceded in death by his wife Marilyn in 2008, and his brother, Bob, in 2019. ■

Facing Challenges of a **Remote Workforce**

Joe Carty, Territorial GM, Ironcore, Inc.

Reflecting on 2020, the past 12 months have brought an unprecedented change to the physical and digital banking world. Digital banking channels had been moving some customer interactions out of the branch even before COVID-19, but most bank employees spent their workday on bank premises. However, in reaction to the pandemic, banks were faced with needing to close offices and branches, requiring nearly all employees to work from home. *Time* magazine has coined this rapid shift to a remote workforce as "the world's largest work-from-home experiment." So what about after the crisis? Research has shown over half of employees prefer the shift to working remotely. It seems clear that remote work is likely to become a standard part of how banks operate, meaning banks are now challenged with managing its impact on culture, business processes and IT systems.

Common Issues

All banks are required to have a Business Continuity Plan (BCP). A typical disaster plan only covered the ability to prepare for, withstand and recover rapidly from disruptions that include deliberate attacks, accidents or naturally occurring threats. Most bank's continuity plans did not address scenarios with nearly 100% disruption over several months, such as closing offices and branches, requiring a majority of employees to work from home. Additionally, for many financial institutions, this sudden change not only affected the logistics of their day-to-day banking business, but also how they handle information security in a remote work environment. Banks often experienced a common set of problems when their suddenly stay-at-home workforces began accessing applications and large quantities of data from personal computers and devices. Those problems can be broken out into three categories:

- Sustaining critical business processes
- Ensuring security and compliance
- Providing IT with visibility and control

Critical Business Processes

To keep core business processes running after the flip to en masse remote work,

banks needed to provide workers with immediate access to key data repositories and applications. In the rush to provide employees with remote access almost overnight, many banks turned to Virtual Private Networks (VPN) which provide a safe, encrypted tunnel into the bank's network. However, with almost every employee trying to access the same VPN, many banks began to encounter network bandwidth issues. In addition, some of the desktop applications installed in the office were not especially tolerant of the latency a VPN adds to the equation. As an alternative to VPN, some banks opted for Virtual Remote Desktop technology. Unlike traditional VPNs, Remote Desktop technology lessens risk and enhances compliance by keeping bank data on the bank servers rather than on individual endpoint devices such as laptops. Banks needed to scale access to core systems and applications for employees in addition to deploying new regulation-compliant solutions that could replace in-person activities like sales meetings or executive briefings.

Security and Compliance

Expanding remote access without thorough testing can introduce internal and external risk. To ensure that confidential information didn't fall into the wrong hands due to data leaks or breaches, banks were expected to secure IT infrastructures and remote devices. Unfortunately, due to lack of tools and the need to set up remote capabilities rapidly, many banks may have sacrificed cybersecurity. Eighty-five percent of CISOs surveyed by Netwrix admitted they sacrificed cybersecurity to set up remote working capabilities quickly. This is concerning. The banking industry has always been a huge target for cyber-attacks and this year the industry saw a 238% increase on attacks from February through April alone. In a time where a successful cyber-attack could mean a permanent closure, banks cannot afford security vulnerabilities.

Visibility and Control

Visibility and control are vital for maintaining security and business continuity under the best of circumstances, and they become even more crucial during times of crisis. Security monitoring solutions use machine learning to establish behavioral profiles specific to each bank employee based on their typical interactions with files, applications and networks. They monitor for atypical behavior from the employee such as exceedingly large data downloads, access requests from unknown devices, or logins from unfamiliar locations. When a threat is identified, the system will shut it down before a malicious act occurs.

Conclusion

The onset of the COVID-19 pandemic crisis has led to an unprecedented, lightning fast rise in adoption of employees working remotely. Now that these employees have experienced the benefits and convenience of working from home, they don't want to give it up, and market trends and research indicate that remote work is here to stay. Enabling your employees to work remotely depends on the bank's ability to provide a consistent workspace experience without sacrificing security or derailing critical business processes.

Banks looking to secure work-from-home employees should be:

- Utilizing Virtual Remote Desktop technology vs. Virtual Private Networks (VPNs).
- Requiring Multi-Factor Authentication (MFA) for allowing access to internal networks.
- Ensuring bank-owned devices are only used for work activity and are accessible and controlled by the IT department or trusted managed IT support provider.
- Checking that remote devices continue to have up-to-date security patches and information security protocols in place that are just as effective as the computers within the bank's premises.
- Distributing specific remote-work policies that outline what employees can and cannot do with their devices as well as deploy regular security awareness training and phish testing. ■

Ironcore is the Managed IT and Cybersecurity Services preferred service provider of Community BancService Corporation (CBSC) a for-profit subsidiary of CBAI. As such, Ironcore works with community banks to combine its expertise of technology and the banking industry with community banks' specific business model, risk profile, mission and strategic vision. Inquiries about Ironcore and its services should be directed to Joe Carty, Ironcore Territory GM, joe.carty@ironcore-inc.com, 608/799-3701

+ QUOTE

"For many financial institutions, this sudden change not only affected the logistics of their day-to-day banking business, but also how they handle information security in a remote work environment."
- Joe Carty

Developing a Digital Banking Strategy to Serve Customers and Mitigate Risk

Steve Kent, Senior Director of Digital Strategy, CSI

Over the last several years, our world has been leaning further into the digital realm, largely thanks to a younger, more tech-dependent generation. To stay competitive, community banks must digitize and develop strategies for digital-first customers.

Though many institutions re-directed customers to online, mobile and call center channels in response to COVID-19, that tactical pivot—though important—is not a digital banking strategy. Smaller institutions have various reasons for not fully digitizing, including fear of compliance or operational risk repercussions. Not long ago, those excuses seemed valid. Today, however, they embody community banks' greatest risk.

Customers Embrace Digital Banking

Online and mobile banking use has grown over the last few years, and the pandemic is accelerating its adoption even more. Consumers and businesses previously hesitant to rely on digital channels are now enjoying the convenience, speed and safety they afford.

With consumers fully on board and larger banks already operating in a digital-first mode, community banks have no choice but to adapt or risk being left behind. Here are the three big-picture essentials for a true digital banking strategy:

1. **Top-down digital mindset:** Digital transformation starts with the institution's leadership embracing the idea of enterprise-wide digitization and investing in the human and technical resources needed to serve customers through digital means.

2. **CX focus:** Digital strategies must work to continuously improve the bank customer experience (CX). A bank's competitive advantage lies in a frictionless, personalized and secure experience no matter the transaction processed. This requires rethinking all internal processes with the customer perspective as the focal point.

3. **Self-service and consultation:** The final piece of the puzzle is transitioning digital channels from self-service only transactions to more offerings featuring a consultative layer. Community banks need a digital strategy that provides contextualized consultation around savings, investment and insurance products and services.

Risk Management in Digital Banking

Even though customers demand digital transformation, making it a reality comes with inherent challenges and risks. The most pressing digital banking risk management issues break down into two categories and should be addressed so that your institution can move forward.

Organizational Challenges:

- **Outdated corporate culture:** Entrenched processes and perspectives can hold back your digital transformation. Promoting a more forward-thinking culture must be a top-down change.

- **Unwillingness to change:** KPMG notes that, "Current executives and professionals will either become fast believers or they will hold back your progress." The imperative is to identify the former category and empower them to lead your digital transformation.

- **Lack of innovative thought leadership:** It will take real out-of-the-box thinking to digitally compete with

"Even though customers demand digital transformation, making it a reality comes with inherent challenges and risks."

the big banks. If that kind of modern thinking doesn't already exist within your institution, invite it in.

- **Misguided beliefs:** Squash any notions that a mobile banking app is the only component of a digital strategy, or that digital first means that personalization is no longer needed. Back-end operations and internal processes must fully support a digital environment that effectively identifies and fulfills individual customer needs based on their actions and behaviors.

Regulatory Risks:

- **Digital compliance and cybersecurity:** Banks operating in a digital environment must still comply with all applicable laws and regulations. This includes paying particular attention to uniquely digital processes that are covered under specific rules, such as electronically signing documents per the E-Sign Act. However, institutions can mitigate overall risk by investing in technology designed to help banks comply with the regulatory framework and strengthen cybersecurity.
- **Third-party risk management:** Out of necessity, many banks are outsourcing all or part of their digital strategy to third-party vendors. Since institutions are still ultimately responsible for all functions, a robust vendor management program is key to ensuring that no unqualified third-party provider is hired. A provider must understand the applicable regulatory requirements, be able to adhere to them, and guarantee compliance.
- **Fraud and identity theft:** Community banks can meet challenges of fraud and identify theft by reviewing and strengthening their Bank Secrecy Act/anti-money laundering (BSA/AML), Know Your Customer (KYC), customer due diligence, and other relevant compliance programs. Fortunately, digitizing internal processes yields more data and the ability to use AI to help monitor customer behaviors and more quickly flag potential fraud.

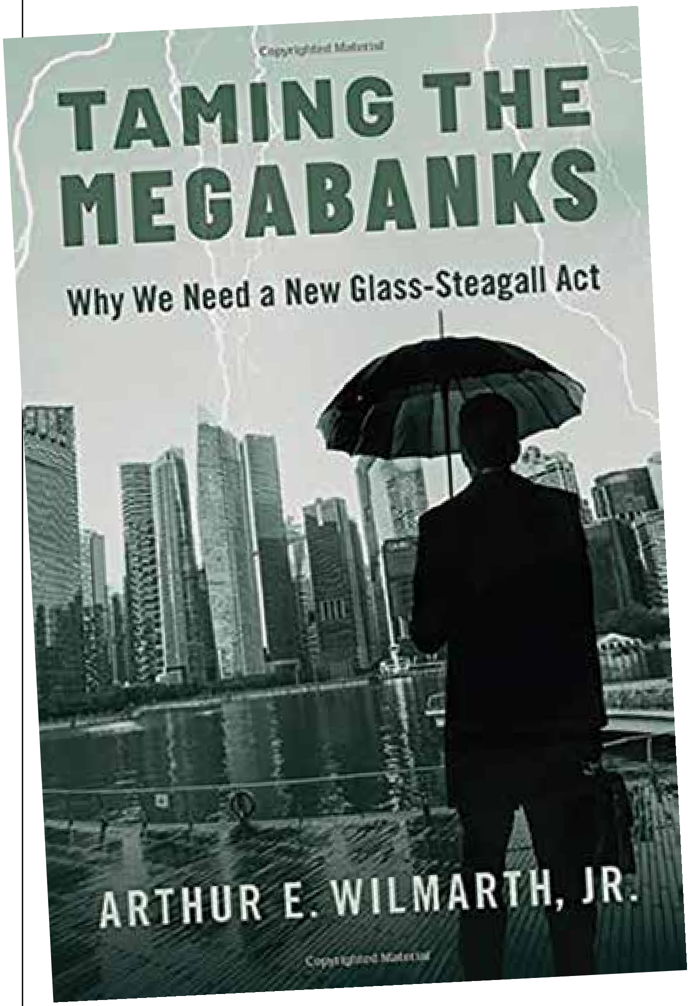
There is no doubt that digitization can increase certain risks for the community banks that do transform, and the answer to this dilemma is enhanced digital banking risk management. ■

Steve Kent is senior director of digital strategy at CSI.

A Must Read —
Art Wilmarth Authors New Book on the U.S. Financial System

In his new book, *Taming the Megabanks: Why We Need a New Glass-Steagall Act* (Oxford University Press, 2020), Arthur E. Wilmarth, Jr., professor emeritus of law at George Washington University, Washington, D.C., calls for a new Glass-Steagall Act that would separate banks from the securities markets, as the original Glass-Steagall Act did from 1933 through the 1980s. Regulators opened loopholes in Glass-Steagall's barriers beginning in the late 1980s, and Congress repealed those barriers in 1999.

Banks became major participants in U.S. securities markets twice during the past century — during the 1920s and since the 1990s. Both times, banks with "universal banking" powers made high-risk loans and packaged them into securities that they sold to investors around the world. Both times, universal banks promoted unsustainable credit booms that led to destructive busts — the Great Depression of the early 1930s and the Great Recession of 2007-09. Both times, governments funded costly bailouts of universal banks.



Congress did not adopt a new Glass-Steagall Act after the Great Recession. Instead, Congress passed the Dodd-Frank Act, which tried to make our financial system safer by mandating a series of technical reforms. However, the Dodd-Frank Act left in place a dangerously unstable financial system that is still dominated by universal banks and large "shadow banks," including private equity firms and hedge funds. Shadow banks are financial institutions that are not chartered or regulated as banks but mimic many of the activities of banks.

In *Taming the Megabanks,* Professor Wilmarth argues that we must again separate banks from the capital markets to restore financial stability and ensure that our financial system serves Main Street business firms and consumers instead of Wall Street speculators. A new Glass-Steagall Act would create a financial system that is much more stable and much less likely to produce hazardous boom-and-bust cycles.

A new Glass-Steagall Act would break up universal banks, thereby ending their dominance of our financial system. Shadow banks would no longer be allowed to fund their activities by offering short-term financial instruments — like money market mutual funds and securities repurchase agreements — that function as substitutes for deposits. Securities markets would once again function as true markets instead of being subsidized and distorted through their connections to "too big to fail" banks. A new Glass-Steagall Act would promote a more decentralized and competitive financial system, which would provide better services to all sectors of our economy and society. ■

Professor Wilmarth has frequently testified before committees of Congress on financial regulatory issues. During 2010, he served as a consultant to the Financial Crisis Inquiry Commission, the body established by Congress to report on the causes of the financial crisis of 2007-09.

Taming the Megabanks is available for purchase on Amazon.

Illinois Employee Personal Leave Laws

Jerry Cavanaugh, CBAI General Counsel, Springfield, IL

H.R. officers at banks and other businesses are no doubt familiar with laws such as the Family and Medical Leave Act and laws relating to time away from work for service men and women on active duty status. There are some more obscure State laws in Illinois that grant employees an entitlement to time off for specific commitments, including:

School Visitation Rights Act

This Act grants any employee who has been employed for at least six months and who works hours equivalent to at least one-half of the hours of a full-time position the right to take time off for school "educational or behavioral" conferences regarding their child who is attending primary or secondary school (public or private) in Illinois or in a state that borders Illinois.

"Child" is defined to include natural, adopted, foster and step children of the employee, as well as a ward for whom the employee is legal guardian. The Act requires an employer to grant eight hours of leave during the course of a school year, no more than four hours of which the employee can take on any given day, to enable the employee to attend "school conferences, behavioral meetings, or academic meetings related to the employee's child;" however, that Section adds the condition of "if the conference or meeting cannot be scheduled during nonwork hours," which is significant because the Act later states that for regularly scheduled nonemergency meetings or conferences, the school "shall" make time available during both regular school hours and evening hours.

The employee is required to provide her/his employer with a written request for leave at least seven days in advance of any scheduled school visitation leave.

Section 15 of the Act adds the condition that an employer is not obligated to grant these school visitation hours if the employee has not yet "exhausted all accrued vacation leave, personal leave, compensatory leave and any other leave granted by the employer except sick leave and disability leave."

Subsection (b) of Section 15 confirms that these school visitation hours are ***unpaid*** leave, unless the employer chooses otherwise.

Section 20 states that an employer shall make a good faith effort to permit the employee to make up the unpaid time off by working on a different day or shift, but the employer is not obligated to accommodate that request if no "reasonable opportunity" for such rescheduling of hours exists. "Reasonable opportunity" does ***not*** include any rescheduling of hours that would result in payment of overtime wages.

The school is obligated to provide the employee with documentation certifying attendance at the school visit, which, in turn, the employee is obligated to submit to the employer.

Section 35 provides that no employee shall lose any employment rights and no employer can terminate any employee for an absence from work authorized by this Act.

Employee Blood Donation Act

This Act applies only to employers who have more than 50 employees and to ***full-time*** employees who have been employed for at least six months. It authorizes ***paid*** leave of one hour every 56 days for the employee to donate blood. Although the statute provides that this time off must be approved by the employer, State Department of Labor regulations require exceptional circumstances for a denial by the employer to be legitimate.

Family Military Leave Act

While other State and federal laws protect the employment status of employees who have an extended absence from work due to active military (including National Guard) service, this Illinois law provides leave time for "family military leave" for employees who have been employed by the employer for at least 12 months. Eligible employees include spouses, parents, children and grandparents of a person called to military service for a duration of more than 30 days.

Leave time under this Act is ***unpaid*** (unless the employer is more generous than the law requires) and the employee is required to give at least 14 days advance notice of the intended start of her/his family military leave.

The law applies only to employers that employ not less than 15 and not more than 50 employees. It also states that family military leave time can be as much as 30 days; however, that 30 days is reduced by the amount of days that the employee was awarded under the Family and Medical Leave Act ("FMLA") due to a spouse or child being in military service. In other words, the employee is not entitled to "double dip" and use as much as 30 days allowed by FMLA and up to an additional 30 days under Illinois' Family Military Leave Act if both uses of leave time under those two separate Acts stemmed from the same active duty military service of the employee's qualifying relative, but if the employee had only attributed 15 days of FMLA leave to that cause (s)he would have up to 15 days allowable under this Illinois law. ■

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 or CBAI Paralegal Levette Shade at levettes@cbai.com.

JANUARY 2021

6 **Providing Provisional Credit Under Reg E**

7 **Uniform Residential Loan Application (URLA): Deadline March 1, 2021**

12 **Creating or Revising Work-from-Home Policies**

12-13 **Compliance Institute: Operations –** Shazam Education Center, Springfield

14 **IRA & HSA Update: Key Considerations for 2021**

20 **Branch Manager Group A –** Shazam Education Center, Springfield
Flood Insurance Rules, Best Practices & Liability

21 **CEO Forum Group I –** CBAI West Conference Room, Springfield
HR Group D – Drury Hotel, Mt. Vernon
Call Report Update 2021

22 **HR Group B –** Shazam Education Center, Springfield

25 **Senior Lender Forum Group V –** DoubleTree by Hilton, Lisle

26 **Senior Lender Forum Group II –** Shazam Education Center, Springfield
Work-from-Home Record Retention Rules

27 **Senior Lender Forum Group I –** Shazam Education Center, Springfield
Calculating Cash Flow from Corporate Tax Returns

28 **Senior Lender Forum Group III –** Shazam Education Center, Springfield
Beginning BSA Officer: What You Need to Know on Day One

29 **CEO Forum Group VII –** DoubleTree by Hilton, Lisle
HR Group A – CBAI West Conference Room, Springfield
Senior Lender Forum Group IV – Shazam Education Center, Springfield

FEBRUARY 2021

2 **Ag Lenders Conference –** Live Stream and/or On-Demand Recording
Red Flags in Residential Appraisal Compliance
2nd Quarterly Compliance Meeting – Live E-Classroom Seminar via Go to Meeting

3 **2nd Quarterly Compliance Meeting –** Live E-Classroom Seminar via Go to Meeting
Flood Compliance Beyond the Basics

4 **CEO Forum Group IV –** Grizzly Jack's Grand Bear Resort, Utica
CEO Forum Group III – Shazam Education Center, Springfield
Calculating Cash Flow from S-Corporation & Partnership Tax Returns

5 **CFO Forum Group II –** Shazam Education Center, Springfield
CEO Forum Group V – DoubleTree by Hilton, Lisle
Branch Manager Group B – Grizzly Jack's Grand Bear Resort, Utica
HR Group C – Grizzly Jack's Grand Bear Resort, Utica

9 **Work-from-Home Risks: How Compliance Can Limit Liability**

10 **Overdraft Hotspots Including Regulations, Lawsuits & Guidance**

11 **"No-Contact" Account Opening: E-SIGN Compliance**

17 **New Security Officer Training: Your Bank Protection Act Responsibilities**

18 **Determining Cash Flow from Personal Tax Returns Part 1: Form 1040, Schedules B & C**

19 **CEO Forum Group VI –** Shazam Education Center, Springfield

22 **CFO Forum Group I –** Shazam Education Center, Springfield

23 **Compliance for Lenders –** Shazam Education Center, Springfield
Security Compliance for Work-from-Home Staff

24 **Compliance for Lenders –** DoubleTree by Hilton, Mt. Vernon
The Top 10 ACH Exemption Handling Questions

25 **CEO Forum Group II –** Drury Hotel, Mt. Vernon
The Board's Role in Cyber Security Risk

CBAI Webinar

Member News

Devon Bank, Chicago, and the **Federal Home Loan Bank of Chicago** were recently recognized by the *Chicago Tribune* as a 2020 Top Workplace. Only 140 companies and organizations were selected for this prestigious award. The list is based solely on employee feedback gathered through a third-party survey administered by employee engagement technology partner Energage, LLC. The Top Workplaces program celebrates leadership and the importance of maintaining an employee-focused culture, even during challenging times.

Rick Jameson

Rick Jameson retired as president and CEO of **North Central Bank, Hennepin,** on December 31, 2020. **Kim McKee** became president and CEO on January 1, 2021. Jameson, who has served as the president of the bank since April 2017, worked in the banking industry for more than 44 years, starting in 1976 at the former Pekin Savings & Loan. In 1985, he took a position as president of Tremont Savings & Loan, later known as Tremont Savings Bank. Jameson served as chairman of the Community BancService (CBSC) Board in 2011-12 and of the Community Bankers Association of Illinois (CBAI) Board in 2012-2013 and has served on many different committees within the organization since 1997.

Security Bank, s.b., Springfield, recently promoted **Olivia Hansel** to branch operations manager at the Monroe location and **Sandy Shaub** to branch operations manager at the Stevenson Drive location.

The State Bank Group, Wonder Lake, (TSBG) instituted an eLearning initiative, establishing creative ways to accommodate their working parents during the unusual circumstances created by the pandemic. The bank converted unused office space and conference rooms into temporary classrooms so TSBG bankers' kids can do their eLearning right in the same building as mom or dad.

Doug Edgar, The First National Bank of Ava, retired as president on December 31, 2020. He will remain on the bank board. **Collette (Coco) Tope,** CEO, became president on January 1, 2021.

Larry Franklin

Larry Franklin, CNB Bank & Trust, N.A., Carlinville, retired as senior executive vice president and chief banking officer on March 31, 2020. After transitioning to senior vice president/consultant, he continued to represent and promote CNB Bank in the Alton and surrounding markets, while continuing as a director through the end of 2020. During his 50-year banking career, Larry served on numerous CBAI committees, as well as the CBSC Board.

Shawn Davis, president and CEO, stated "As an officer and a director, Larry has been an integral part of CNB's success since 2003 when Cornerstone Bank Joined our group. I'm sure that I speak for all of the officers, directors and employees of CNB when I congratulate Larry on an exemplary career and wish him the best."

The First National Bank in Tremont and the Village of New Holland announced a large project for the Village of New Holland's downtown, consisting of a newly constructed bank building, relocating the current Village offices, Community Center and Historical Society, and the donation of a building in between the current bank building and the new bank location. The First National Bank in Tremont is donating their current bank building to the Village of New Holland, along with a $20,000 grant they received from the Federal Home Loan Bank of Chicago, to help pay for remodeling costs of the project. The current bank building will be the new home for the Village offices, New Holland Community Center, and the New Holland Historical Society.

YWCA Chicago CEO **Dorri McWhorter** and JLL International Director **Meredith O'Connor** have been named co-chairs of the advisory board for **First Women's Bank, Chicago,** which is in organization.

Brian Tobin is **Welch System's** new regional sales manager, located in Lake Zurich, IL. He can be contacted at btobin@welchsystems.com or 847/807-4520.

Shield Compliance, a comprehensive compliance management platform for banking legal cannabis-related businesses, announced the expansion of its sales team with the addition of **Richard H. Drennen** as business development officer. Based in Birmingham, AL, Drennen is a seasoned executive with decades of business development experience in a variety of industries.

CBAI associate member **Midwestern Securities Trading Company, LLC (MSTC)** recently honored four of their top investment services partners with the **Elite Financial Team Award** at their annual CEO & Advisor Forum, which was held online this year. They also honored several partners with the prestigious **Harvester Award and the MSTC Moxie Award.**

The 2020 Elite Team Award winners are: Financial Advisor **Jeffrey Schumacher,** CRPC®, and the team at Goodfield State Bank Investment Services, a division of **Goodfield State Bank;** Financial Advisor **Josh Miller,** CFP®, and the team at TGSB Financial Services, a division of **Table Grove State Bank;** Financial Advisors **Adam Carlson,** CFP®, and **Eric Grant,** CFP®, and the team at Midwest Bank Wealth Management, a division of **Midwest Bank, Monmouth;** and Financial Advisor **Nate Henna** and the team at Bradford Wealth Management, a division of **Bradford National Bank, Greenville.** Recipients were chosen based on their demonstrated excellence in the areas of client service and retention, commitment, attitude, teamwork and asset gathering.

The 2020 Harvester Award winners are: Financial Advisor **Luke Harl** of FNB Asset Management, a division of **Fairfield National Bank;** Financial Advisor **Brian Card** of PSB Investment Services, a division of **Princeville State Bank;** and Financial Advisor **Robbie Minor** of Sauk Valley Investment Services, a division of **Sauk Valley Bank, Sterling.** These advisors were chosen for their commitment to building their businesses and serving in the best interest of their clients.

The 2020 MSTC Moxie Award winners are: Financial Advisor **Jeffrey Bressner** of First Farmers State Bank Investment Services, a division of **First Farmers State Bank, Minier;** and Financial Advisor **Michael Vogt** of Teutopolis Investment Services, a division of **Teutopolis State Bank.** Recipients were selected for this award for their commitment to putting in hard work, doing the right activities, and showing unstoppable perseverance with courage and vigor.

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Gerber State Bank, Argenta, donated $2,500 to the Foundation, becoming a bronze-level sponsor.

Fairfield National Bank contributed $1,000 to the Foundation.

North Central Bank, Hennepin, donated $500 to the Foundation.

Board and committee members of the CBAI corporate family donating travel expenses to the Foundation are: **Sheila Burcham, Community Trust Bank, Irvington; Will Coolley, Longview Capital Corporation, Newman; Shawn Davis, CNB Bank & Trust, N.A., Carlinville; Dan Graham, Flora Bank & Trust;** and **Mary Jo Homan, Chester National Bank.**

The Foundation received $115 from CBSC and CBAI board members as a result of the "dress-down" board meeting in October.

Banknotes

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