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# Banknotes

OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS ASSOCIATION OF ILLINOIS

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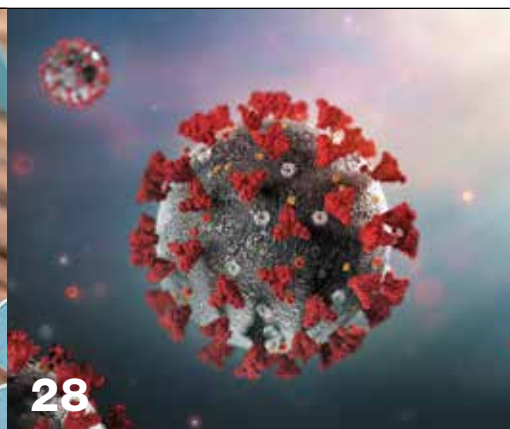
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## Community Banks Respond to Crisis with Heart

Community bankers regularly assist customers who are facing unforeseen economic hardships. Whether it's a pandemic, layoff, strike or other unexpected personal economic emergency, community bankers will always work with their customers, be it individuals, small businesses, farmers or local governments, to find ways to weather the storm together. During times of crisis, such as the COVID-19 pandemic, it is sometimes hard to see the upside. But community banks have adopted a mentality of "We are all in this together." At CBAI, we know that at the heart of community banking is just that, community. We have found time and time again that community banks are always community focused and immediately look for ways to help their customers, local businesses and hometowns.

For example, **Fisher National Bank** was recently spotlighted in a *Wall Street Journal* article describing the bank's efforts to serve customers affected by the pandemic, including increasing credit lines, lengthening loan terms, allowing customers to make interest only payments, and re-instating its skip-a-pay program.

Many community banks are offering loan deferrals to assist individuals

and small business affected by the COVID-19 crisis. Customers may be eligible for temporary relief from mortgage or loan payments. Community bankers want to help, and they are willing to go above and beyond where possible to help their customers and communities during this critical time. We have seen countless examples of our bank members stepping up to lend a helping hand in a variety of ways.

**Bank of Springfield (BOS)** co-sponsored the Eat Local Contest, in which local residents were encouraged to purchase a gift card or takeout order

of \$50 or more from a local restaurant. Those who submitted receipts were entered into a drawing with three cash prizes of \$2,000, \$1,000 and \$500. BOS also partnered with the Adams County Together Task-force and Quincy Medical Group to provide face masks for local businesses.

**Goodfield State Bank** offered drive-thru PPP loan fundings. Small business customers could drive up and sign PPP loan documents, and as an added bonus, the bank purchased meals from a local small business to give customers a complimentary lunch on the go.

### Devon Bank's uOpen Account

The Independent Community Bankers of America (ICBA) released an article listing community banks that have the ability to open accounts remotely with a zero starting balance, which is a helpful option during these unprecedented times. The list includes Devon Bank, Chicago, which offers uOpen, provided by their core system, Finastra. uOpen runs ID Authentication (IDA) with the "out of pocket" verification questions that are generated from a customer's credit history. uOpen also runs ID Verification (IDV) that includes ChexSystems & OFAC, which is the bank's standard verification that is run when opening an account in person. The software provides the option to let the system auto-approve/deny according to set criteria or manually approve/deny each application. Devon Bank chose the manual option due to the number of applicants who are new to the country, noting that anyone with little or no credit history would be denied if set on auto, so they take additional steps to verify these individuals. uOpen also gathers anticipated account activity for BSA.



**First National Bank, Clinton**, is now serving clients using a new Video ATM, the first of its kind in DeWitt County. The new technology allows for personal service while allowing for safe social distancing. A Video ATM allows for personal transactions between clients and a universal banker. When engaged, a First National Bank Universal Banker will appear on video to help guide a client through a transaction(s). The Video ATM can assist with more types of transactions than a regular ATM including deposits, check cashing, loan payments, withdrawals and transfers.

**Legence Bank, Eldorado**, knows their communities have been hit hard by COVID-19. The bank is committed to making a difference for those groups that are making a difference in the lives of their community members. Legence Bank has donated more than \$11,000 to various organizations providing relief to those in need. The bank shared a little cheer with Liberty House retirement home by leaving carnations for the residents and delivered cookies from a local bakery to Franklin Hospital. They also raised awareness for local businesses with a Facebook contest where individuals could nominate their favorite local business. Winners chosen at random

received a \$100 gift card to the business they nominated.

**CNB Bank & Trust, N.A., Carlinville (Taylorville branch)** purchased 80 Easter dinners from a local caterer with their “Friday Jean Money” and fed the staff of Taylorville Memorial Hospital. Susie Montgomery, assistant vice president and retail loan officer, delivered the meals on Easter Sunday morning.

**State Bank of Toulon** has been buying lunch for the staff at the bank each day during the week from one of their local county restaurants to help them navigate through the COVID-19 shutdowns. They have also highlighted a financial education section on their website with helpful financial tips to help customers get through these uncertain times.

**State Bank of Waterloo** started a *Support Your Local Restaurant Challenge*, encouraging local businesses to pick a group and buy lunch for them from one of their many small business restaurants offering curbside service. They provided lunch for their entire bank from a local restaurant and then partnered with one of their local medical teams to provide lunch for their staff. They also created

## Paycheck Protection Program Report

The Small Business Administration (SBA) released its Paycheck Protection Program (PPP) Report (combined for Phase One and Two) through May 23, 2020. The highlights included:

- The approved loan count was 4,426,118 and the gross dollars were \$511,231,948,095.
- More than 5,500 lenders are participating in the program.
- Illinois ranked fifth in approved loans and dollars at 176,819 and \$22,075,994,303, respectively.
- Illinois’ average loan amount was \$121,898 compared with the national average of \$115,503.
- The largest percentage of the number of loans (64.3%) was under \$50,000 and the largest percentage of the dollar amount of loans (21.9%) was between \$350K and \$1 million.

Those states ahead of Illinois with the largest total number of loans were California, Texas, Florida and New York.

The SBA included data on lender size, and those under \$10 billion in assets originated 49% of the approved loans and 44% of the loan dollars.

In the category lenders with under \$1 billion in assets and non-banks, banks accounted for 82% of the loans and 80% of the loan dollars.

Community banks may continue to submit loans to be funded by the remainder of the \$250 billion in general funds authorized for the second phase of the PPP.



The staff of Taylorville Memorial Hospital thanked CNB Bank & Trust, N.A., Carlinville, for providing them Easter dinner.



West Central Bank, Ashland, provided a monetary donation to a local food bank.

a small business bingo game which encouraged individuals to shop locally for a chance to win a \$100 gift card to their favorite local business. Non-perishable food items were also purchased to support the local food bank.

**Havana National Bank** encouraged others to support local restaurants with pick-up orders or gift card purchases

by offering a chance to win \$50 for the individual and \$50 for the business they are supporting.

**The First National Bank in Amboy** delivered a bag of cheer, including cards and sweet treats, to the residents and employees of Stonecroft Village Retirement Community in Mendota and Liberty Village of Princeton.

The Rushville branch of **West Central Bank, Ashland**, gave a monetary donation to the Schuyler County Food Basket, which is still operating as a drive up/pick up service and fills approximately 130 baskets this time of year. They also distributed 90 Subway gift cards to the employees at Culbertson Memorial Hospital and 30 Dairy Queen gift cards to the Schuyler EMS crew.

**Marquette Bank, Orland Park**, helped their restaurant customers by regularly ordering large orders for their own bank employees, as well as donating to hospitals, police, fire personnel and other front-line workers.

Bank employees donated Easter baskets to be delivered to less fortunate children in the Chicagoland area via The Port Ministries' Bread Truck.

**Apple River State Bank** provided all of the staff at Midwest Medical Center and Galena-Stauss Senior Care Community with lunch from a local restaurant.

David Loundy, chairman and CEO of **Devon Bank, Chicago**, stepped up to support his employees by offering 0% interest loans of \$5,000 to employees whose spouses have suddenly lost their jobs due to the current economic pause.

Loundy also wanted to provide ways for customers to get through this time without the bank incurring rating penalties for providing financial accommodation to customers in need. His proposal was approved up the chain of command through regulatory agencies and, as a result, banks nationwide are able to provide their services without fear of a rating penalty. "Our business' health is driven by the health of our customers

## Success Stories

*Community bankers know that every business matters. That's why they worked around the clock to assist more than 177,000 small businesses in Illinois through the Paycheck Protection Program. These personal stories about helping small, local businesses have been provided by our member banks.*

We were able to help a self-employed borrower whose loan amount was just \$2,500. She cried when she found out she was approved and then apologized for crying. I told her there was no reason to apologize. She was trying to save her business, which is her life's work.

A local business employing 150 people struggled with the original requirements, but we kept in contact with them as SBA guidance changed daily. Luckily, new guidance finally allowed them to enter

the program, we made the loan, and the business will continue to have a positive impact on our community.

After working with a national/regional bank for the first week of round one of the PPP, this business approached us about helping them as they heard we were having success. He completed an application, submitted the documents, and within 10 minutes we were able to approve him for a PPP loan. These funds were going to help keep everyone there employed during the next eight weeks. For us, he was a non-customer, but none-the-less we were able to help very quickly.

A restaurant/bar owned by a woman who was going through cancer treatment was trying to keep her business going and pay her workers thru take-out orders. I

contacted her by phone and encouraged her to come in and let us help her fill out the paperwork. She qualified for a few thousand dollars and was in tears when she found out the good news!

A young dentist who grew up in our community now has her dental practice in a large city. She banks at a large national bank and was frantic towards the conclusion of round one of the PPP because her bank was unable to process her loan of approximately \$150,000. We were able to immediately accommodate her request, and as a result, received 10 referrals from other dental practices.

We read in the local paper about two businesses that were being shut out of the PPP program. We were able to track down both businesses and get them access to PPP loans.



and our communities. If we take care of them, they take care of us,” Loundy said.

These are just a few examples. Tons of our member banks purchased gift cards from local restaurants for customer give-aways, hung hearts in their windows to show support for medical staff, provided tips to educate customers regarding pandemic-related scams, and much more! And they continue to look for new ways to help. Our member banks have worked tirelessly to help individuals and business customers economically impacted by the pandemic, including navigating the SBA's Payment Protection Program. In a CBAI survey, we found that 97% of respondents are participating, or attempting to participate, in PPP loans. Most community bankers have submitted less than 100 PPP applications for less than \$10 million in total individual bank demand. This tells us that community bankers are making small loans to very small businesses, likely the small businesses that need them the most. ■



Apple River State Bank delivered meals to medical workers and senior care staff.

A local woman has been battling health problems during the past year. We provided her with a small loan of approximately \$1,500 to help her with her business that she has run for more than 25 years. Through her tears, she confided that she was not sure if she was going to be able to continue to stay open without this assistance.

A good commercial account was told by their large national bank that they wouldn't process their PPP loan because they had filled their quota. We were able to help their 200 employees.

Fuel delivery company drivers must meet hazardous material rules. If they get laid off, they need to get relicensed. When the economy restarts, the owner would not have the drivers to resume operations. With the PPP loan, these drivers kept

their jobs, and they are now seeing growth potential as many companies in their line of business decided to lay off drivers. This saved 30 high-paying jobs in our very small community.

An eligible not-for-profit applied at a large bank but missed out on round one of the PPP. We did the loan. When we delivered the news that we had processed their loan, the director of the not-for-profit was brought to tears.

A childhood friend of mine is an out-of-state dentist. His loan was stuck on the desk of his large national bank during the last few days of the first round of PPP funding. We were able to get him approved and funded within a couple of hours. When his lender called him back my friend told him that an Illinois banker had helped him.

Through the PPP program, a local trucking company was able to keep more than a dozen trucks on the road. Ninety percent of those drivers live in small towns in our county, which desperately need to keep all the jobs they can.

A local independently-owned daycare company employing 10+ local residents was forced to shut down because children were staying home. Through the PPP, they were able to continue to pay their teachers/workers.

We originated a loan to an auto repair shop with two employees. They would have lost their business had it not been for PPP.

Many of my calls to borrowers ended in [grateful] tears.



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# Dress Down Day



for CBAI's Foundation

CBAI encourages your bank to hold a "dress down" day for your staff benefitting CBAI's Foundation for Community Banking scholarship program. Choose any day in 2020 and ask your employees to donate a minimum of \$5 to the Foundation to dress casual. **Participating banks will be recognized for their support in *Banknotes* magazine and at CBAI's convention!**

Your donations help fund the Foundation's 31 scholarships offered every year to high school seniors, the children and grandchildren of community bankers, and CBAI's Community Bankers School attendees. (All Foundation donations are 100% tax deductible).

To find out more information on participating in "Dress Down for the Foundation," contact Valerie Johnston at [cbaicom@cba.com](mailto:cbaicom@cba.com) or by phone at 800/736-2224. Please send donations to: CBAI Foundation, 901 Community Drive, Springfield, IL 62703.

# Interest Rate Risk Doesn't Do Quarantines

Lester Murray, Associate Partner, The Baker Group, Oklahoma City, OK



**T**he world has changed. The nation's economic lockdown has given previously confident consumers a new and cautious attitude of frugality. The propensity to borrow and spend has turned into an inclination to deleverage and save. Once prosperous businesses struggle to stay afloat as society and culture adjust to a new, post-pandemic playbook. Municipalities and political subdivisions are faced with the challenges of impaired revenue streams and eroding tax bases. The nature of community banking is not immune to the changes being wrought and will no doubt be further changed by variables not yet contemplated. Something that few anticipated as recently as year-end, a return to a Zero Interest Rate Policy (ZIRP), is now upon us and will likely be upon us for the foreseeable future.

## Risk Comes to Work Every Day

As bankers across the country rally to meet the needs of their customers and communities, it's understandable that the intricacies of interest rate risk management may have taken a back seat to more pressing issues. But, like an essential employee, interest rate risk shows up at the bank every single day and that's not going to change. What has changed for most, if not all community banks, is the characteristics of their balance sheets' risk profiles.

The direction of repricing has become universally down for both asset dollars and liability dollars, but not by the same degree. The volumes of those dollars subject to repricing may have significantly changed, too, as the ultra-low rate environment affects the prepayment behavior of mortgage-backed securities along with the likelihood of optional call features being exercised by bond issuers. Not to be forgotten, the level of prepayments experienced by banks' own notecases are being affected also. Don't forget about liquidity, either. The establishment and maintenance of reliable sources of funds is a perennial priority with bankers and supervisory agencies alike, and in the present environment, the regulatory scrutiny of such things is likely to be intense.

## Don't Assume Your Assumptions Are Still Valid

The regulatory scrutiny of the many assumptions used for interest rate risk modeling exercises is also not new and may be just as intense while society transitions from almost total lockdown to partial reopening and ultimately to a new, "new normal." No one knows exactly how these processes may play out nor how human behavior may be affected by them. Humans, after all, make up the vast majority of community

banks' customers; how they behave influences how those banks, and the risks they contain, are managed.

## History May Not Repeat Itself, But It Does Tend to Rhyme

This is not a new consideration and the establishment of ZIRP by the Fed during the sub-prime meltdown and resulting Great Recession sparked many of the same uncertainties faced by risk managers today. Will low market yields create disintermediation and an erosion of core deposits? That was an outcome feared by many back then, even while the majority of community banks continued to watch those deposit balances grow ever higher. What will happen this time? What about the costs of those deposits? How much did your deposit rates rise during the nine rate hikes the Fed promulgated during its normalization phase? How much did they fall while rates were again cut during 2019? Now that we've returned to ZIRP, could those NMD betas be due for another change? For external sources of funding, how much will they cost and what changes have occurred in their availability and terms? Through what new hoops might we need to jump?

On the asset side, will growing loan demand soak up all available cash flow or will the opposite occur, thus adding



more stress to already stressed net interest margins? Will lenders have any pricing power or will competitive pressures control what borrowers ultimately pay? What are your loan betas and reinvestment rates? Should they be adjusted? For the investment portfolio, keeping an eye on the degree of embedded optionality might help avoid unwanted volatility in cash flow along with unwanted changes to duration. And don't forget about your economic value of equity. Many portfolio managers have been loading up on long municipals this year, and there are some very sound reasons for doing that. Remember, though, an extension of duration also means more exposure to market risk that will accelerate depreciation if rates rise. As

unlikely as that prospect is, this whole year has been an unlikely prospect. And even though the evaluation of credit risk is not typically within the scope of interest rate risk management, don't forget that those munis come with some. Outright defaults have not yet become a problem, but downgrades to an issuer's credit rating can damage market value and liquidity.

#### Take a Deep Breath and a Fresh Look

The plates of bankers, particularly community bankers, are pretty full these days, and pausing to review the esoteric elements of a process that can sometimes be cumbersome can also be easy to defer. Assuming the assumptions driving your modeling exercises haven't changed, however,

could lead to misleading results. A review of those assumptions is not only a good idea, it's a regulatory requirement. Unless you're performing this review by yourself, stay at least six feet away from everyone else; the world has changed. ■

*Lester Murray joined The Baker Group in 1986 and is an associate partner within the firm's Financial Strategies Group. He helps community financial institutions develop and implement investment and interest rate risk management strategies. Before joining The Baker Group, he worked at two broker/dealer banks in Oklahoma City and was also an assistant national bank examiner. A graduate of Oklahoma State University, Stillwater, he holds Bachelor of Science degrees in finance and economics. Contact: 800/937-2257, [lester@gobaker.com](mailto:lester@gobaker.com).*

**The CBAI Foundation for Community Banking is proud to provide three annual \$4,000 scholarships endowed by: SHAZAM®, Kasasa and Community BancService Corporation.**

**Eligible students are children and grandchildren of community bankers and students who work at our members' community banks. Contact Valerie Johnston at [valeriej@cbaicom](mailto:valeriej@cbaicom) or visit [www.cbaicom](http://www.cbaicom) to find out more!**



**Entries are due by Friday, August 14!**

**CBAI FOUNDATION SCHOLARSHIPS**  
for children and grandchildren of community bankers

SPRING/SUMMER 2020



# INSURANCE MARKET UPDATE

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

**T**he disruption caused by COVID-19 has had a pronounced effect on our businesses and lives. Across the insurance industry, communication remains open, submissions are being underwritten, and insurance renewals are being bound. However, this is not the case for those who have had to temporarily close their doors or scale back operations. Recognizing these difficult times clients are facing, many insurers have offered relief through extended payments, allowing for midterm exposure changes and premium reductions.

The legislative front is very active as insurance regulators are issuing various orders to support policyholders in their respective states. While we continue to monitor these updates, the position of some insurers remains uncertain.

For years, the industry's rates haven't kept up with loss costs, but now carriers remain intensely focused on underwriting discipline to ensure the right terms and pricing. Thus, we continue to see extreme differences in how the market is responding between classes and sizes of business.

Taking this into account, these are the key general trends:

1. **Property:** Overall costs accelerated faster than the prior quarter.
2. **Workers' compensation:** Pricing remains competitive but is increasing for the first time in years.
3. **Casualty:** Continued negative impact by mega verdicts.
4. **D&O:** Public company D&O is the most distressed.
5. **Cyber:** Exposures have shifted with a remote workforce.
6. **Hardening market:** Still exists in pockets.

## Property

Overall property costs accelerated faster than anticipated in the first quarter 2020. Increasing deductibles, shrinking sub-limits, and carriers' conservative limit deployment have led to less favorable terms and conditions for insureds. With this, as well as the COVID-19 pandemic uncertainty, we expect current conditions to continue through the end of 2020.

## Workers' Compensation

Overall workers' compensation costs increased slightly first quarter 2020, but not for community banks. We predict reduced exposures, negative rates and lower claim frequency will lead to reduced premiums for insureds, and a better-than-expected combined ratio for carriers.

- Claim frequency was lower first quarter during the pandemic.
- Many businesses have transitioned to remote workplaces in order to promote social distancing, which resulted in a reduction in exposure and likely a reduction in claims.
- There are many scenarios and prognostications about COVID-19 and the possibility presumption of compensability may be extended to all employees that could impact the workers' compensation industry.

We expect a continued flat/soft workers' compensation marketplace to remain in the coming months. There are too many variables and assumptions at this point to predict what impact COVID-19 will have on the workers' compensation industry as a whole — the number of infected





workers, jurisdiction of loss, severity of loss, compensability regulations, etc. However, it is reasonable to assume higher losses will eventually come in the long term, followed by higher premiums.

### Primary General Liability

General liability costs continued to rise in the first quarter, as the overall legal landscape shifted in the U.S.

- The frequency of large judgments increases in litigation financing and an empowered plaintiff bar continue to challenge our industry.
- The median average verdict for the top 50 cases in the U.S. has doubled in the last four years.
- Clients with tougher product exposure susceptible to higher frequency of lawsuits, can expect larger rate increases.
- The industry will watch whether there is liability exposure arising from failure to adequately follow and communicate public health guidelines such as their responsibility to provide personal protective equipment (PPE).

- Insurers are beginning to introduce or enhance their communicable disease exclusions in response to COVID-19.

Even though loss costs have been rising, plenty of capacity remains. We expect a firming rate environment to continue, but community banks remain in a highly desired niche.

### Auto Liability

Loss costs rise as new technologies make vehicles more expensive to repair. Underwriters will continue to push rate across the board in auto liability.

Maybe more than any other line of coverage, auto insurance has been directly impacted by COVID-19 with some estimating vehicle usage is down 50% since mid-March.

Almost every major auto carrier for personal lines has outlined plans for rebates to customers in the 15% to 20% range for two months. We don't know how the commercial sector will respond to this change in exposure but expect to see auto rates level off with the reduction in exposure (miles driven) related to COVID-19.

### Umbrella/Excess Liability

First quarter rates continued to climb to their highest levels in recent years. Umbrella and excess liability placements have been greatly impacted by social inflation (generally defined as an increase in insurance costs due to rising litigation, larger jury verdicts and overarching anti-corporate sentiment). Social inflation goes to the sensibility of juries and how that translates into expected value of claim outcomes. Carriers are concerned with a litigation environment so favorable to plaintiffs and climbing jury verdicts.

Carriers are pushing significant rate increases — more than 15% on most renewals — with sharper increases on clients with heavy auto fleet exposure or operating in higher hazard industries.

Many high-risk insureds should expect not being able to buy the limit they purchased last year because of lack of availability.

Umbrella and excess lines carriers are beginning to introduce or enhance their communicable disease exclusions in response to COVID-19.

Underwriters seek a return to making money from underwriting. Accordingly, we do not expect much change in the casualty environment for the remainder 2020. General liability and auto costs will continue to climb modestly, umbrella/excess pricing will rise, higher umbrella/excess layers will be limited, and the industry will keep careful watch over COVID-19 impact on workers' compensation marketplace.

### Directors and Officers

More so than any other line, D&O diverged between public and private companies. Privately held companies with favorable loss histories are seeing only modest rate increase, whereas publicly held companies face an entirely different marketplace.

### CAPACITY

- Carriers are often reducing capacity.
- Some carriers have a moratorium on new public D&O business.
- Fewer carriers wish to write primary and first excess D&O layers.

### TERMS AND CONDITIONS

- Speculation on a COVID-19 exclusion.
- Possible bankruptcy exclusions are possible.
- Prior acts exclusions on new limits.

### PRICING

- Very dependent on market segment, financial condition, claims history and current pricing.
- Unfavorable industries have seen or may soon see 50% to 80% increases. Community banks remain in the favorable sector with

### DID YOU KNOW?

Auto insurance has been directly impacted by COVID-19 with some estimating vehicle usage is down 50% since mid-March.

only modest increases. Typical Commercial D&O Renewals can expect 30% to 50% increases.

#### OTHER TIPS (ALL COMPANIES—PUBLIC AND PRIVATE)

- Discuss guidance philosophy with outside counsel. Be prepared to share with D&O underwriters.
- Reevaluate insider trading policies and windows (public).
- Review risk factors and disclosures with respect to operations in light of COVID-19 (and in general) with outside counsel. Be prepared to proactively address COVID-19 impact with D&O underwriters.

#### Cyber

All signs indicate we've moved from a long period of flat premiums to a marketplace where underwriters are regularly seeking 5% to 20% rate increases. This trend cuts across most industry sectors.

The hardening cyber market has been driven mostly by an increase in frequency and severity of ransomware claims that manifested in 2019 and continue to this day. The 2020 Beazley Breach Briefing\* reported a 131% increase in ransomware attacks compared to the previous year. Additionally, reports of seven- and eight-figure ransom demands are becoming more common.

#### HEIGHTENED CYBER RISK: COVID-19 AND THE REMOTE WORKFORCE

With the sudden onset of COVID-19 mid-March, the majority of the global workforce was moved to remote locations in an effort to stop the spread. In doing so, it became apparent for many organizations that their staff may be operating in an environment that is inherently less secure than their normal office space. Questions were raised regarding insecure WiFi networks, the usage of personal devices, videoconferencing platforms potentially being open to cyberattacks and whether or not the increased strain on IT networks

could lead to business interruption losses.

While we have not seen an abnormal rise in frequency, there is evidence of several COVID-19-themed criminal phishing campaigns that are being aimed directly at the remote workforce.

#### TAKE STEPS TO ASSESS YOUR CYBER RISK

- Review cyber policies to evaluate scope of coverage; how it may cover cyber losses related to the use of employee-owned devices and remote networks. Specific focus should be concentrated on how a policy might define "computer networks," "computer systems" and other key terms.
- Be aware cyber claims costs for business interruption almost always have a waiting period before coverage applies and limited period of restoration.
- Review policies carefully to see if any portion of the loss may be covered. For example, if faced with a social engineering loss, it is possible that lost funds may not be covered in the cyber policy, and that other policies, such as crime policies, may apply.

#### Conclusion

The duration of the pandemic, the full magnitude of its economic impact and the subsequent impact on the insurance industry remains unknown. However, underlying fundamentals are likely to continue for some time and there's nothing to indicate the momentum will slow. ■

*Due to the highly nuanced nature of this market, it is imperative you partner with a broker who specializes in your industry. Community BancInsurance Services, a Gallagher Company, is the exclusively endorsed insurance representative of CBAI/CBSC. Ask for Patti Tobin, CIC, 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.*

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# SAFEGUARDING AGAINST FRAUD IN A COVID-19 ERA

*Tina Giorgio, President/CEO, ICBA Bancard, Washington, D.C.*



**A**s of May 7, U.S. consumers have lost \$27.24 million to COVID-19 fraud, according to the Federal Trade Commission. Of those, credit card losses accounted for \$5.02 million, coming in just behind wire transfers at \$7.18 million.

Despite numerous warnings from the FBI, IRS and others, fraudsters are capitalizing on the pandemic to take advantage of consumers, highlighting the importance of community banks in supporting their customers in their battle against this opportunistic fraud.

## Internal Actions

As I reported in my previous column, ICBA Bancard has noticed a rise in card-not-present transactions during the pandemic. While this may revert as states open-up, community banks can leverage some of the lessons learned from card-not-present scenarios to help safeguard other transactions by:

- Initiating more standardized alerts and controls – Encourage customers to utilize fraud prevention tools like card alerts and controls. You may want to consider lowering thresholds for alerts or positioning the program as a value-add to encourage automatic enrollment.
- Examine transaction limits – Review limits on accounts for purchases, daily spend, card not present, cash advances and remote deposit capture to determine if they should be modified.
- Conduct portfolio reviews – Are there inactive cards that should be closed? Are there customers whose limits should be adjusted? Are there interest rate adjustments you should consider? These are just a few things to consider as you conduct portfolio reviews to reduce your risk exposure.

- Reach out to customers – Provide regular customer updates and offer helpful safety practices to avoid phishing or spoofing attacks. There are several free, ready-made assets to help you communicate best practices to your customers. Walk them through the process of setting alerts and controls and emphasize offerings like multi-factor authentication and tokenization that provide additional safety measures for transactions.

## Planning Ahead

While no one knows for certain what the post-COVID-19 environment will be, we can strategize about how it may impact our business — and what that means for shifts in fraud threats.

It's also important to recognize that consumer behaviors are becoming more digital because of safe-at-home orders, which may mean your clients' preferences may be changing, as well. These are important factors that should be taken into consideration in reviewing customer usage data to help project future behaviors and align them with necessary updates to fraud rules and processes.

If your modeling reveals an increased preference for a digital experience, how does that impact your branch network? Think about service options in and out of the branch and consider what tools and skills you will need — from additional fraud education and differing in-branch security measures to shifts in daily operations.

COVID-19 has thrown new fraud opportunities into the mix, and we know from experience that fraudsters will gravitate to the path of least resistance. As the stewards of our customers' resources and their trusted advisors, we must remain one step ahead, helping to protect them — regardless of the pandemic. ■

*Tina Giorgio is president and CEO of ICBA Bancard. She can be reached by e-mail at [tina.giorgio@icba.org](mailto:tina.giorgio@icba.org) or by phone at 800/242-4770.*

## 2020 Annual Scholarship Program Winners Announced



# CBAI

The CBAI Foundation for Community Banking has selected its 2020 Annual Scholarship Program winners. The program offers \$21,000 to high-school seniors via an essay writing contest; \$500 is also awarded to the first place winner's high school. This year, 90 CBAI member banks representing 246 students participated in the contest, which is a *free CBAI member benefit*.

The first-place scholarship of \$1,000 each year for up to four years of higher education was awarded to **Luke Cowan**, sponsored by **Buckley State Bank** (*his winning essay follows*). His high school, **Paxton-Buckley-Loda High School**, received a \$500 award. He plans to attend Augustana College, Rock Island, IL, to study toward a career in accounting.

Judges who had the ability to award an additional \$1,000 in each of the remaining 11 CBAI groups which encompass the entire state, bestowed the following \$1,000 first-place gifts: **Logan Krska** (First Community Bank and Trust, Beecher, Peotone branch); **Kayla Runkle** (The State Bank of Pearl City); **Megan Brooker** (North Central Bank, Hennepin); **Collin Shelts** (Rushville State Bank); **Whitney Leman** (Goodfield State Bank, Roanoke branch); **Katelyn Van Dyke** (Scott State Bank, Bethany, Mt. Zion branch); **Eric Schafer**

(First National Bank in Taylorville); **Rachel Patterson** (State Bank of Waterloo); **Justin Zumbahlen** (The Peoples State Bank of Newton); and **Jayla Eubanks** (Legence Bank, Eldorado).

In addition, the following students were awarded \$500 as second-place finishers: **Ethan McFarland** (Town Center Bank, New Lenox); **Joseph Lenz** (Lena State Bank); **Olivia Overman** (Bank of Gibson City); **Laura Endress** (State Bank of Toulon, Kewanee branch); **Ethan Eskridge** (Rushville State Bank); **Mallory Pine** (First Neighbor Bank, N.A., Paris branch); **Addison McMahan** (Alliance Community Bank, Petersburg); **Megan Schleifer** (Old Exchange National Bank, Okawville); **Claire Niebrugge** (Dieterich Bank, Effingham); and **Rylee Bollmann** (First State Bank of Campbell Hill).

Non monetary Honorary Mentions were bestowed on: **Joe DeHaan** (Town Center Bank, New Lenox.); **Jordan Streckwald** (Community Bank, Lena); **Jacob Brown** (Peoples National Bank of Kewanee); and **Morgan Smith** (Rushville State Bank).

The CBAI Foundation for Community Banking sincerely thanks all the students and bankers who participated. ■

## Luke Cowan's Winning Essay

Sponsored By: Buckley State Bank

### The Impact/Importance of Community Banking to Me or Someone I Know

Community banking has had a significant effect on my family's life from the time my parents first bought a home here. Without the assistance of a community bank, my parents would not have been able to purchase the house that I have been able to call home for the entirety of my life. For many people, the

American Dream is to be able to provide for themselves and own their very own home, and this would not be possible for a large majority of rural Americans without the presence of community banking. Community banking is much more personal and family-oriented than large chain banks, which obviously has its benefits. Whenever you enter a community bank, you are greeted and welcomed as though you are one of their

own and they take an interest in your life and well-being rather than just viewing you as a number or statistic. Obviously, community banks are still a business and cannot just freely grant money to everyone they know, but being a member of a community bank means that you can develop a close, face-to-face relationship where trust is present and loans can be approved where they otherwise would not with a larger bank. This is the case for



my family, and it has truly had a positive impact on our lives.

### **The Impact/Importance of Community Banking to a Business or Agricultural Concern in My Area**

Much of what farmers do would not be possible without community banking. Many close family friends and my grandfather, who has been a farmer for almost 60 years, could easily attest to the positive role community banking has played in their day-to-day lives. Farming is a relatively risky business due to the fact that not every harvest is going to be ideal; farmers cannot control how much or little rain their crops get, but they can count on the financial stability that a community bank provides. My grandfather has often turned to his community bank for assistance after a

dry year or when equipment stopped working. Farmers would not be able to make a living without the loans provided by their community bank after such hardships. Community banking is an integral component of almost all farmers' everyday lives; if not for the loans provided by community banks, farmers would not be able to produce crops to sustain the American people.

### **The Impact/Importance of Community Banking to My Community in General**

In smaller towns, banks are the backbone of the entire community. Whether it be farmers, homeowners, private schools, churches, or other local businesses, almost every facet of rural America is dependent on community banking. Community banks share a commitment

to those they serve and are very involved in their communities, unlike big banks; this is certainly true for the town I live in. Several years ago, the private school I attended decided to undergo much-needed renovations for the first time in over 55 years, and it was a large expense, to say the least. The overall cost for the entire project was well over a million dollars and there was simply no way the school, church and community could have afforded to go through with such an astronomical expenditure without the help of our town's bank. On top of providing the loans necessary to pay off such a great expense, our community bank contributed several thousand dollars to the entire cost. Needless to say, community banking has played a vital role in both my community and other similar communities across the nation. ■

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# 2020 CBAI Annual Scholarship Program: Member Banks' Local Scholarships

The CBAI Foundation for Community Banking Scholarship Program complements your bank's local scholarship programs. One of the cornerstones of community banking is to contribute to the well being of the local area. Here is a concrete example of that effort, totaling **\$234,000** given away by CBAI members in their communities.

*(Awards made by cash, check or account deposit, unless otherwise indicated.)*

**Apple River State Bank —**  
Five \$1,000

**Great Rivers Bank, Barry —**  
Two \$500

**The First National Bank of**  
**Beardstown —** \$2,000

**First Community Bank and**  
**Trust, Beecher —** \$1,250  
(Valedictorian) \$500 (donated  
to Peotone Community  
Scholarship Association)

**First State Bank of Beecher**  
**City —** Four \$750

**First State Bank of Campbell**  
**Hill —** Three \$500

**MidAmerica National Bank,**  
**Canton —** Five \$1,000/year;  
Four \$2,500/year; Three  
\$2,500 (one time); Two \$500

**The Bank of Carbondale —**  
Two \$500

**Buena Vista National Bank,**  
**Chester —** \$4,000; \$1,000;  
Two \$500

**Central Federal Savings**  
**and Loan Assn., Cicero —**  
Two \$1,000

**The Frederick Community**  
**Bank, Cissna Park —** Mr.  
& Mrs. D.A. Frederick  
Memorial Scholarship  
\$4,000 (\$500 each semester)

**DeWitt Savings Bank,**  
**Clinton —** \$4,000; \$2,000  
(\$1,000 or \$500 a year for four  
years for six students)

**Farmers State Bank,**  
**Elmwood —** \$500; \$300; \$200

**Fairfield National Bank —** Five  
\$1,000 (David Kinney Memorial  
Scholarship) \$300 (CBAI  
Scholarship Award); \$200 (CBAI  
Scholarship Award)

**Fisher National Bank —**  
\$1,000 (Parkland College  
Student); \$500 (local high  
school student)

**Flora Bank & Trust —** \$500

**Town Center Bank, Frankfort**  
**—** Three \$500

**German-American State**  
**Bank, German Valley —** Six  
\$1,000 (Two – Forrestville  
Valley High School; Two –  
Pecatonica High School; Two  
– Winnebago High School)

**Goodfield State Bank**  
(Eureka/Metamora/Roanoke)  
— \$500; \$500; \$500

**Bradford National Bank,**  
**Greenville —** \$8,000 (Two  
\$1,000 at each of the  
following schools: Greenville,  
Highland, Mulberry Grove  
and Triad Marine)

**Farmers State Bank of**  
**Hoffman —** \$1,000

**Jersey State Bank, Jerseyville**  
**—** \$1,000; \$750; \$500

**Peoples National Bank of**  
**Kewanee —** Three \$250

**Lena State Bank —** Four \$500

**The First National Bank,**  
**Mattoon —** \$1,000

**Citizens State Bank of**  
**Milford —** \$125; \$100; \$75

**First National Bank of**  
**Okawville —** Four \$1,000  
(Two – Good Citizenship  
Scholarships; Two – Kaskaskia  
College Scholarships)

**Old Exchange National**  
**Bank, Okawville —** \$4,000;  
Five \$500

**Federated Bank,**  
**Onarga —** \$500

**The Frederick Community**  
**Bank, Paxton —** Mr. & Mrs.  
D.A. Frederick Memorial  
Scholarship \$8,000 (\$2,000  
each semester); Mrs. Nancy  
Frederick Sweet Memorial  
Scholarship \$4,000 (\$1,000  
each semester)

**First National Bank in**  
**Pinckneyville —** Five \$4,000

**Bank of Pontiac —** Six  
\$1,000 (Two – Prairie Central  
High School; Two – Pontiac  
Township High School; Two –  
Dwight Township High School);  
\$500 (Coal City High School)

**Princeville State Bank —**  
Two \$250 (One – Brimfield  
High School; One –  
Princeville High School)

**Bank of Rantoul —** \$1,000

**Rushville State Bank —**  
Four \$500

**First National Bank of**  
**Steeleville —** Six \$1,000  
(In Memory of Arthur Werre  
Jr. Scholarship)

**State Bank of Toulon**  
(Kewanee/Toulon/Galva) —  
\$750; \$500; \$250

**Petefish, Skiles & Co.**  
**Bank, Virginia —** Three  
\$500 (One per county: Cass,  
Mason and Menard)

**State Bank of Waterloo —**  
Four \$6,000; Four \$1,000

*Do you have a local scholarship that is not reflected here? Please contact Bobbi Watson, CBAI executive assistant, at [bobbii@cba.com](mailto:bobbii@cba.com) or 800/736-2224 to get on the list for the 2021 July issue of Banknotes magazine.*



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# CREATING NEW WAYS TO CELEBRATE!



**April 5-11, 2020** was the 30<sup>th</sup> Anniversary of Community Banking Week in Illinois. Although many of the planned celebrations and activities unfortunately needed to be postponed due to the pandemic, this year's theme held true more than ever. Community banks are "Always Community-Focused!" Community Banking Week was a perfect opportunity to remind customers that community banks will be there for them, during the COVID-19 crisis, in the aftermath of the crisis, and always. Luckily, our member banks found new ways to celebrate this year!

**Bradford National Bank in Greenville, Highland, and Marine**, took great measures to support local business during the pandemic, which just happened to fall during Community Banking Week. The bank purchased many gift cards to local small businesses and restaurants to help support them economically. They have given away more than 150 gift cards (and 50 gallons of milk) and offered "drive-thru" specials at area restaurants. The bank also did outreach to local media to help protect consumers from fraud associated with the CARES Act.

**Germantown Trust & Savings Bank** participated in Community Banking Week by purchasing \$20 gift certificates from local businesses throughout their community that have been impacted by COVID-19. They gave every drive-up customer a chance to enter. In addition to drive up entries, customers could email the

bookkeeping department their name and phone number for a chance to win. "We wanted to honor this week like we do every year, even during the COVID-19 pandemic, in order to keep some normalcy for our customers and employees," said **Megan Mayberry**, customer service representative.

During Community Banking Week, **Farmers State Bank, Elmwood**, posted daily give-aways on Facebook and Instagram that gave back to their local community businesses, including \$50 gift cards. They also posted photos of employees participating theme days throughout the week, including pajama day, sports day, Wacky Wednesday and hat day.

**The First National Bank of Brownstown** held Facebook contests throughout the week, including guessing the number of coins in a piggy bank.

Giveaways were awarded every day, including oil changes to three different local service shops, and gift certificates to local restaurants. The bank also gave away a timely gift for shelter at home, a Crosley Gig Turntable.

With kids out of school, **The FNB Community Bank, Vandalia**, posted a video each day on their Facebook page of a different employee reading a children's book. Since 2006, The FNB Community Bank has hosted area charitable groups for a breakfast where each received a donation check, which is typically held in April in conjunction with Community Banking Week. Unfortunately, this year's breakfasts in Vandalia and Greenville were canceled due to the pandemic. However, The FNB did mail checks to all of those who would have been invited. In total, 78 organizations, 36 in Fayette County and 42



in Bond County, received donations totaling \$17,225. Among the recipients were local fire departments, public libraries, museums, veterans' organizations, schools and not-for-profits, including those that provide a variety of services to senior citizens and those battling poverty.

"We're happy to continue our tradition of supporting these great causes," said **John Goldsmith**, marketing director for The FNB Community Bank. "While the coronavirus has shut down our schools and many of our businesses, the missions of these groups continue, and the financial impact of this isolation period on them remains to be seen. We hope these donations provide some relief."

**Bank of Springfield (BOS)** employees took to the radio waves during Community Banking Week. Executive Vice President **Jason Knoedler** and CBAI President Kraig Lounsberry were guests on Springfield's Sam Madonia Radio Show to talk about Community Banking Week. **Julie Stapleton**, VP of commercial lending at Bank of Springfield, and Jerry Peck, CBAI SVP of governmental relations, were on the Illinois Farm Bureau's RFD Radio program discussing the ways community bankers are

assisting customers and neighbors in the ag community during the crisis. In addition to Bank of Springfield's ongoing Eat Local Contest, the bank offered a kid's coloring activity during Community Banking Week with the BOS dog.

**First Robinson Savings Bank** ended the week by spreading some cheer while practicing social distancing. Customers visiting the drive through enjoyed music put on by Full Range Entertainment Group, as a local DJ played a variety of music genres from his vehicle. The bank also participated in the "heart hunt."

**Princeville State Bank** was spreading smiles however they could! They gave out Pay Days and 100 Grand candy bars at the drive-thru during Community Banking Week. The bank also decorated their locations by adding hearts to their windows to show support of medical workers.

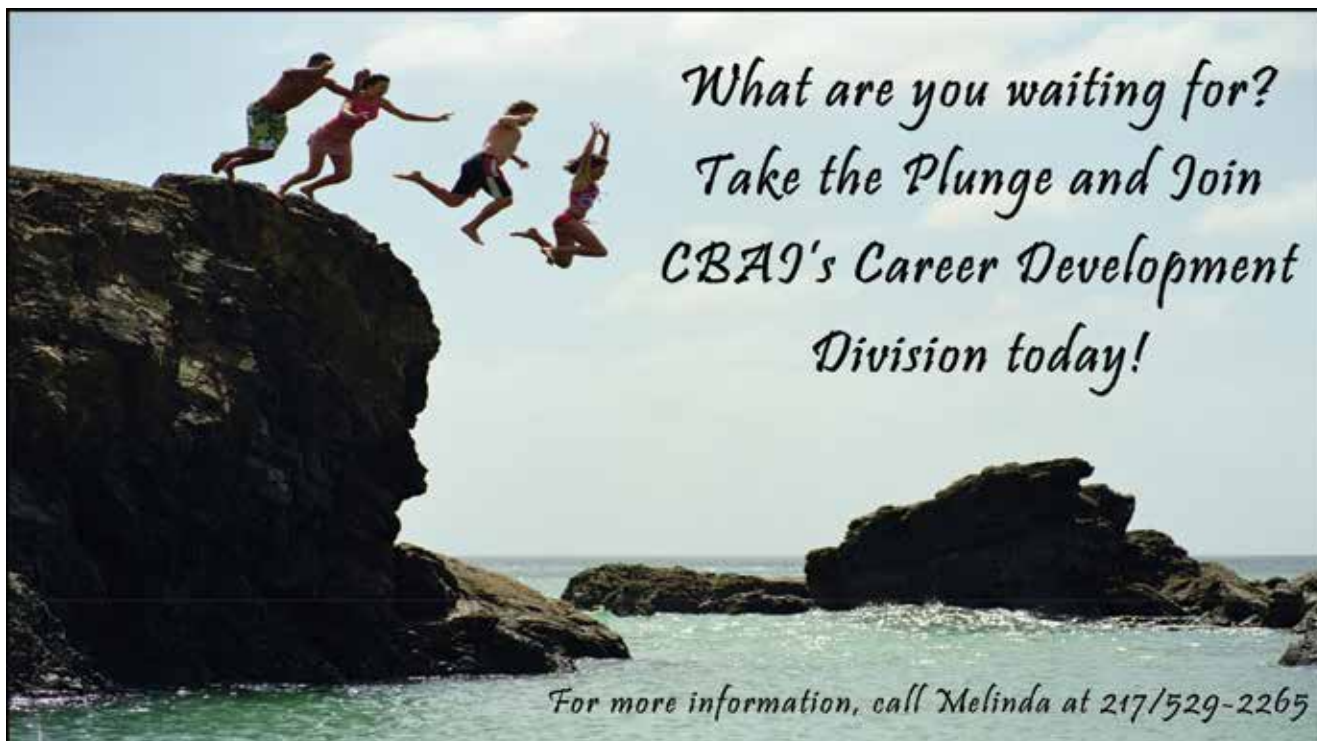
In celebration of Community Banking Week, **Community First Bank of the Heartland, Mt. Vernon**, provided a fun indoor scavenger hunt that families could do in the comfort of their own home. Participants who completed the scavenger hunt took a family selfie and posted it on the bank's Facebook page for a chance to win \$100 cash, or a \$50 gift card

to a local restaurant. They also encouraged local teachers to help us spread the word by sharing the post and using the scavenger hunt in their daily homeschool activities. Every share by a teacher provided a chance to win \$100 for their school. They also bought lunch during the week, urging customers to stop by a local restaurant for a delicious treat.

**Raritan State Bank** provided lunch during Community Banking Week to Eagle View Community Health System, Inc., with food from a local restaurant.

These are just a few of the many examples of the wonderful ways our members found new ways to celebrate an unprecedented Community Banking Week in 2020. We commend you for adapting your plans and finding different opportunities to showcase what community banking is all about this year. During this pandemic, it has become more evident than ever that community banks are "Always Community-Focused!"

We look forward to getting back to the normal in-bank celebrations that bring our communities together in 2021. Next year, Community Banking Week is scheduled for **April 4-10, 2021**. Complimentary marketing materials will be available from CBAI in January of 2021! ■



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# CBAI Recognition Programs



**I**t is a privilege to honor the careers of member bankers who have left a significant footprint on the community banking profession and on their own communities with their tireless efforts, dedication and hard work. One such recognition is the Distinguished Member Award.

Distinguished Members have contributed to community banking with an extraordinary expenditure of time, money and/or effort. They have acted as “ambassadors” for community banking, ultimately making a positive impact on the profession.

Nominees for the Distinguished Member designation must be retired or otherwise uninvolved in the day-to-day operations of a bank; have worked for a bank or other entity related to the financial services profession for a minimum of 20 years; and, if they worked for banks, those banks must be active members of CBAI at the time of induction. Candidates must be approved by the CBAI Board of Directors.

CBAI’s Recognition Program also acknowledges the achievements of member banks and bankers through its 50 Years in Banking Award, Spotlight on Directors, and Patron of Community Banking designation.

## 50 Years in Banking

If your bank has a director or employee whose professional ties to banking span 50 years, he or she is eligible for recognition with a handsome award.

If the 50-year anniversary has already passed, an award may be purchased from the association for \$200. In addition to the award, individuals celebrating a 50-year anniversary will receive coverage in *Banknotes*, CBAI’s bi-monthly magazine, and at the CBAI Annual Convention.

## Spotlight on Directors

CBAI’s bi-monthly magazine, *Banknotes*, regularly features stories about inside or outside directors who have an interesting story to share. The story may center on a hobby or avocation, the way in which the person came to join the board, or how he/she approaches board duties.

## Patron of Community Banking

Some member banks have a history of advocacy for CBAI by supporting it through specific, measured involvement in all association departments and events. An award has been created to recognize these banks: the “Patron of Community Banking.”

Criteria for this special designation:

- Bank is a member in good standing, having paid its most recent dues assessment;
- Bank has been represented at three of the past five CBAI Annual Conventions;
- Bank has been represented at Capital Conferences and/or Call on Washington for three of the five most recent events;

- Bank has been represented at three of the five most recent Group Meetings;
- A representative of the bank has sponsored at least one new CBAI member or associate member;
- Through corporate donations, personal donations, or a combination of the two, the bank has contributed a combined annual total of at least \$750 to Community BancPac and/or FedPac during the three previous years;
- A bank representative has served on the board of directors of the CBAI corporate family or one of its standing committees at least one year in the previous five years;
- Bank has earned at least 12 education-related credits in the previous year. Credits are awarded in varying amounts for seminars, forums, schools, webinars and the Career Development Division (CDD);
- Bank has utilized at least six services of CBSC;
- Bank has pledged/donated a minimum of \$500 to the CBAI Foundation for Community Banking. ■

*Do you know someone at your bank who is deserving of one of these recognitions? Contact Valerie Johnston at CBAI at 800/736-2224 or by e-mail at [cbaicom@cbaicom.com](mailto:cbaicom@cbaicom.com) today! We want to acknowledge the achievements of our member banks and bankers!*





# CBAI Responds to the Pandemic with New Training Options

If the COVID-19 pandemic has taught us anything, it is that technology and virtual learning can be effective in our day-to-day operations.

CBAI has always prided itself on offering quality educational programs that provide in-depth training to assist community banks. CBAI's Education Department has developed a variety of virtual learning programs that not only helped community banks during the pandemic but will also be incorporated into future training options.

During the "stay at home" order, CBAI hosted various one-day seminars, groups and forums, multiple day institutes, and the popular Community Bankers for Compliance quarterly meeting in a virtual format to help banks stay informed and provide the necessary training for their employees. Many of our groups and forums shifted to meeting weekly so they could stay updated on PPP loans, best operating practices, lobby re-opening strategies, as well as other important topics.

CBAI even created a COVID-19 training page on our website, so bankers could quickly locate education programs to meet their needs. While virtual learning is not for everyone or for every program, it provides a viable option for quality educational training to community banks across the state.

In addition to the webinar training we have always offered, CBAI has begun offering e-classroom seminars, Knowledge-Byte training videos, and an on-demand training series (video-based) within the virtual training arena. These programs are outlined below. While we feel that in-person training and networking is very important for community bankers, we will continue to provide virtual learning options in the future to help community banks get the necessary training. Please visit

our website for a full listing of offerings and to register online at [www.cbai.com](http://www.cbai.com).

## **E-Classroom Seminars**

During these e-classroom seminars, attendees participate individually AND in group discussions. These e-learning seminars combine a live presentation, screen views, chat and open questions with pod activities. Topics included COVID-19 related information along with many other subjects beneficial to community bankers.

## **"Knowledge Byte" Training Videos**

"Knowledge Byte" videos cover hot topics, including the impact of COVID-19. These videos can be viewed at your leisure. This vital training, including audio, visuals and handouts, can be viewed any time that is convenient for you. Each video is approximately 45 to 60 minutes in length, depending on the topic.

## **On-Demand Training Series**

CBAI has created a COVID-19 Best Practices and Re-Opening Your Lobby On-Demand Video Training Series designed to get you and your team back to work and back to success safely. This comprehensive series provides knowledge on how to create mental, emotional and physical safety. Topics covered include safe cleaning practices, HR challenges, and ways to protect both your employees and your customers. Other topics such as customer service, management and sales will also be developed. ■

# Advocacy in a Pandemic:

## *How the CBAI Governmental Relations Team Reacted to COVID-19*

*Jerry Peck, Senior Vice President of Governmental Relations, CBAI*

**C**risis management is a big part of governmental relations. The CBAI team is adept at pivoting quickly and responding in an emergency. There is a degree of trust and mutual respect within our GR team that allows us to focus our attention in many areas at once, permitting us to divide and conquer the challenges at hand. Usually we have a reliable playbook. We know the state legislative and congressional calendars and we can somewhat predict the pace of emergencies. COVID-19 was different. We pivoted, divided into our new roles, and haven't stopped running since.

We've responded to thousands of emails and hundreds of phone calls and participated in more Zoom/Skype/teams and conference calls than we care to count. Along the way, we chased down rumors and speculation to identify facts in a sea of misinformation to make sure our communications were timely and effective for community bankers. Those things you already know. In the rest of this article, I want to pull back the curtain and talk about some of the things we've been working on that aren't always so obvious.

When PPP was announced, it was hectic, frustrating and confusing for community bankers. We realized that community bank customers were probably having a similar experience, so we reached out to our counterparts in retail, manufacturing, insurance, ag and chambers of commerce to keep them abreast of the situation so they could help manage the expectations of their members. They told us they were getting quicker and more useful information from CBAI than they were from SBA and Treasury. Several congressmen asked David Schroeder, senior vice president of federal governmental relations, to join them as their PPP expert on calls with small business owners in their districts. The Illinois Farm Bureau invited me to join them on their statewide radio program to discuss financial issues. We continue to reinforce our status as the go-to source for banking information in Illinois.

Even before the crisis hit, Stacy Workman, vice president of communications and operations, was overhauling our online polling capabilities. It couldn't have come at a better time.

We were able to collect data specific to Illinois community bankers that no one else could. This information was used by bankers to make decisions throughout the crisis. We also shared details with regulators and members of Congress who were grateful to have information to inform their policies and decision making. It facilitated an open exchange of information that ensured CBAI remained ahead of the curve throughout the crisis.

Early in the pandemic, there was a large national push for blanket mortgage forbearance. Blanket forbearance was a powerful political talking point that governors in New York and California jumped on quickly to score political points. Illinois' governor was looking to follow suit. CBAI launched a major lobbying effort with the General Assembly and administration to push back against the message. It took weeks of standing our ground in the face of tremendous political pressure. Jerry Cavanaugh, general counsel, reached out to democrat staff attorneys to make a compelling legal argument. We were also successful in blocking forbearance and mortgage forgiveness legislation when the General Assembly finally convened.

Cook is the largest county in Illinois with 5,323,719 residents. Ford County ranks 79<sup>th</sup> with 13,398 residents. In the first week of the stay at home order, both counties were shutting down recorder's offices, stifling the ability to conduct real estate transactions. A large coalition of groups, including CBAI, worked with Cook County Officials to find a solution, but Ford County wasn't getting much attention. I personally called the Ford County Clerk and Ford County States Attorney and together with Ford County Title Company we were able to craft a mutually beneficial agreement to get real estate transactions moving again. Other rural counties used the agreement as a template to provide services during the crisis. At the same time, Megan Peck, vice president of governmental relations, helped broker a deal in Cook County. We can do both. A bank customer in Gibson City is just as important as a customer in Chicago to community bankers.

We learned that cancelling big events like Capital Conference and Call on Washington take about as much work as planning them, just ask Jessie Schmidt, administrative assistant.

### DID YOU KNOW?

Cook is the largest county in Illinois with 5,323,719 residents.



We revised and adjusted plans up until the last minute and then scrambled to cancel our event. There was a great sense of disappointment on April 22 when our electronic calendars reminded us that it should have been the 36<sup>th</sup> Annual Capital Conference. Instead of bankers from around the state coming to support our advocacy efforts, we were still stuck in lockdown. We all missed the Legislation & Regulation Committee, conference attendees, CBAI & CBSC Boards and CDD members who originally planned to join us. It was a feeling that recurred as Call on Washington and each of the Group Meeting dates passed by. We hope we have the opportunity to see you in person very soon. During Phase 4 of re-opening, we hope to organize legislative roundtable events across the state so we can make up for lost time.

We are getting used to the new realities of advocacy in a pandemic, including fewer days in Capitols and at dinners and political fundraisers and more lobbying by text, zoom and cell phone. While our circumstances have changed, our mission remains the same, advocating for the community banking profession. We will continue to pivot and find new ways to accomplish our goals. We will do the big things that make headlines and the little things you don't usually hear much about, all to support community bankers who are doing the much more important work of sustaining and rebuilding communities in this crisis. ■



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## HELPING SMALL BUSINESSES REBUILD

*Marcia Schlicht, Vice President, Growth Corp, Springfield, IL*

**W**e are a few months into this COVID journey, and for some, the closures will continue for at least a bit longer. It seems like we've lived a lifetime during this relatively short period of time. Major disaster assistance initiatives have been debated, approved and implemented at lightning speed. And our industry has dedicated long hours toward helping small businesses survive.

But now we're facing an even bigger challenge: helping small businesses rebuild. The SBA and its loan programs have always played a crucial role in the strength and advancement of our small business sector and in fostering economic growth. During this pandemic, SBA also demonstrated a massive implementation of initiatives aimed at giving small businesses and their employees a fighting chance. But one of SBA's key players, the 504 Loan Program, will play an important role as America begins to reopen and rebuild.

### **An Overview of the SBA 504 Loan Program**

Created over 30 years ago, the SBA 504 Loan Program is an economic development tool that provides small businesses with long-term, fixed rate financing. These loans are most frequently used to acquire land, buildings and/or equipment; to construct, expand and/or renovate buildings; or to refinance commercial mortgages. A 504 loan can be a 10-, 20- or 25-year term, which is beneficial for small business owners. Pairing the fixed rate aspect with these term lengths gives small business owners stability, allowing them to budget and manage cash flow without concerns about rising rates or balloon payments.

These loans essentially consist of three key elements:

- 50% of the project's total cost is provided by a lending institution;
- 40% is provided through the SBA's 504 Loan Program;

- 10% equity is provided by the borrower. (Start-up businesses and single-purpose facilities require a slightly higher equity contribution.)

Most types of businesses are eligible to receive 504 financing; however, the property must be majority owner-occupied. Businesses with a successful track record and growth potential can generally qualify for the 504 Loan Program if they are for-profit and average less than \$5 million in annual after-tax profits and \$15 million in net worth. Projects that qualify must, according to SBA guidelines, promote economic development, which generally means the creation or retention of jobs. There is no limit on the size of the deal, but the SBA participation is limited to \$5 million.

### **How the SBA 504 Strengthens Small Businesses Improves Cash Flow**

Improved cash flow is of vital interest to all businesses. Business owners



faced with high-interest mortgages or upcoming balloon payments can greatly benefit from the SBA 504 Refinance Program. SBA 504 Loans provide access to equity a borrower has built up in real estate while re-amortizing with a low, long-term, fixed interest rate product.

The SBA 504 Refinance Loan is government-backed financing that comes with three huge advantages. One, it offers business owners a below-market, fixed rate and a repayment period of up to 25 years. Two, the down payment requirements are as low as 10% and are often fulfilled by existing equity in the project. And three, borrowers can elect to get cash out for business expenses. Cash can be taken out for salaries, rent, repairs, maintenance, inventory, utilities, credit cards, lines of credit, etc.

To qualify for refinancing, the mortgage(s) to be refinanced must be at least two years old and originally used for the purchase or improvement of fixed assets. Payment history is important too – no late payments of 30+ days in the past year. Keep in mind, loans that currently have a government guarantee (7a, USDA, 504, etc.) do not qualify for a 504 refinance.

#### **Controls Overhead Costs**

Entrepreneurs typically start their business in a leased facility. In fact, many small business owners think financing a commercial real estate purchase isn't even an option because they fear the down payment requirements will be too high. However, buying or constructing a new facility with 504 provides a great opportunity for fixing occupancy costs and locking in low interest rates. Other benefits include:

- Builds equity: each payment is an investment in the future
- Occupancy costs are stabilized: rent increases no longer apply and the SBA 504 payment is fixed

- Preserves cash: in most cases, with the 504, the monthly payment to own is less than a rent payment

By locking in a low rate, which is fully amortized for up to 25 years, borrowers see predictable monthly payments. Plus, 504 Loans have no future balloon payments.

SBA 504 Loans also allow borrowers to roll closing costs, soft costs and other fees into the loan, thus preserving cash. Not to mention, the cost of equipment, furniture and fixtures, parking lots, architectural fees, etc. can also be rolled into the loan.

#### **Helps Streamline or Increase Production**

Whether the business is product or service based, having the necessary equipment is vital to maintaining smooth operations. However, replacing, upgrading or purchasing new equipment can put a serious pinch on cash flow. A 504 Loan offers business owners a more affordable way to get needed equipment without making a substantial dent in the bottom line.

504 Loans are perfect for the purchase and installation of new or used, fixed, long-life machinery and equipment, such as:

- X-Ray or Digital Imaging Machines
- Manufacturing Equipment
- Dry-Cleaning Equipment
- Commercial Printers
- Food Processing Machinery
- Highly Calibrated Machines
- Equipment that generates renewable energy

Machinery and equipment can be financed independent of real estate or in conjunction with a commercial real estate purchase. Loan terms of 10-, 20- or 25-years are available, which is determined by the useful life declaration provided by the manufacturer.

**Entrepreneurs typically start their business in a leased facility. In fact, many small business owners think financing a commercial real estate purchase isn't even an option because they fear the down payment requirements will be too high.**

#### **Practical Examples**

##### ***Working capital was hard to come by...***

A local retail provider was seeking working capital to purchase inventory and pay business expenses. Since the business owned its commercial real estate, the lender suggested a 504 Refinance Loan. The 504 allowed the borrower access to the equity they had built in the real estate while re-amortizing with a low, long-term, fixed interest rate product. With a lower interest rate and better terms, the retailer lowered their monthly payment and accessed much needed working capital without taking on additional debt.

##### ***A balloon payment was looming...***

A manufacturing company was four years into their mortgage payments and business was booming. However, with a five-year term loan, the balloon payment was quickly approaching. The lender stepped in and offered a recommendation for refinancing with the SBA 504 Program's Refinance Loan – a long-term financing option with low fixed interest rates. This allowed the client to stabilize their expenses and spread their predictable payments out over 25 years.

##### ***A stalled expansion got back on track...***

A wholesale bakery, nearing the end of a lease term, received news their business property was being sold and needed vacated. Facing an inevitable

move, the business owner decided to make the most of the situation and began to seek a property that would not only house the business but would also allow for expanded production.

Nearby land was purchased, and construction of a larger building began. However, due to cost overruns, conventional financing could no longer allow for the completion of the construction. The borrower suddenly required a higher advance rate than the bank could offer. Exploring

alternative options in hopes of getting the expansion back on track, the lender suggested the 504 Loan Program and they found it to be the perfect solution.

The participation of the 504 Loan Program allowed the bank to offer a 90% advance, which gave the business the financing they needed to pay contractors and finish the project. The new location offers ample space to produce, distribute and sell an expanded line of bakery items.

### **The SBA 504 is Impact Capital**

When small businesses have access to quality financing through which to strengthen or grow their business, they, in turn, support the growth and success of the communities in which they are based. That's why the 504 is a win-win for all those involved.

- Banks reduce their lending risk and can extend capital to more businesses.
- Business borrowers strengthen and/or grow their business.
- Communities benefit through job creation and local reinvestment - **when businesses buy real estate, they are laying a long-term foundation in that community.**
- The program is a zero-subsidy program and costs taxpayers nothing.
- Business districts are revitalized.
- Capital is more readily accessible in economically-disadvantaged or rural areas.

Not only that, there's another component of the 504 Loan Program. SBA requires CDC's, such as Small Business Growth Corp, to reinvest into the economic development of local communities. This means providing direct financial support and educational resources to entrepreneurs and the small business sector in its area of operations.

The SBA 504 Loan Program is truly "impact capital." As lenders, whether we are fulfilling our critical role as a provider of quality capital to America's growing businesses, working shoulder-to-shoulder with clients to help them overcome challenges and capitalize on opportunities, or contributing to the communities in which we live and work, our impact has never been greater.

### **Pending Legislation**

As of late May 2020, a bill titled "Health and Economic Recovery Omnibus Emergency Solutions Act," or "HEROES Act," was in the hands of the Senate for consideration after passing the House on May 15, 2020. The legislation included proposed changes that would allow for a more flexible and responsive SBA 504 Loan Program along with an expanded authority to refinance debt. Utilizing existing, proven programs, such as the SBA 504 Loan Program, as a means of helping businesses rebuild, re-strengthen and re-open is crucial to America's economic recovery.

As lenders, whether we are fulfilling our critical role as a provider of quality capital to America's growing businesses, working shoulder-to-shoulder with clients to help them overcome challenges and capitalize on opportunities, or contributing to the communities in which we live and work, our impact has never been greater. ■

*Growth Corp is a nonprofit, mission-based lender dedicated exclusively to connecting small businesses with quality expansion capital through administration of the SBA 504 Loan Program. With a commitment to economic development, job creation and the small business sector, Growth Corp is ranked a Top 10 National CDC for SBA 504 loan volume and is Illinois' largest 504 loan provider. Contact Schlicht at 217-553-4546 or read about the program at [www.growthcorp.com](http://www.growthcorp.com).*

## **THINK 504**

You may already think 504 when your borrower is looking to buy real estate, but are you thinking 504 when:

- A borrower has a balloon payment coming due;
- Working capital is needed for salaries, inventory or business expenses;
- The business needs to finance heavy machinery or equipment;
- A 25-year loan term could help manage the borrower's operating capital;
- Concentration issues at the bank could be an issue; or
- An owner wants to sell his/her share of real estate to other owners.



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# Contactless Cards:

## *From Novelty to Essential Capability in Six Weeks*

Nicole Machado, Executive Director, Product Strategy – Cards, Harland Clarke

**T**he world is reconsidering how we do things. Over the course of a few short weeks, new realities have reshaped our thinking. We have suddenly become acutely aware of the spread of viruses, and the role that contact plays in their spread. As a result, demand for technologies that eliminate the risk and alleviate the fears of consumers and merchants is skyrocketing.

It's far too early to understand all the long-term effects social distancing, in-home sheltering, and a closed economy will have on consumer lifestyle and behavior. Nonetheless, the recent surge in contactless payments will not reverse as the pandemic fears subside. There is quick and tangible evidence that contactless payment capability powers

a better customer experience. It is faster, easier and more convenient, in addition to the obvious safety benefit of avoiding contact with common surfaces like cash and payment terminals. What the payment industry needed to drive adoption was trial. It needed consumers to try it once, and those benefits would present themselves. About 38% of consumers now view contactless as a basic need or feature of payments — up from 30% a year ago.<sup>1</sup>

Experts estimate about 65% of U.S. merchant locations accept contactless payments.<sup>2</sup> The pandemic sparked that trial and is quickly turning consumers into adopters of this better payment experience. The World Health Organization (WHO) recommends consumers use contactless payments

whenever possible to help reduce the risk of spreading the coronavirus.<sup>3</sup>

### **Contactless Card Technology Has Now Fully Emerged**

While still considered an emerging technology by some, contactless, or tap-and-go, credit and debit cards currently comprise more than half of all payment cards issued in the world. Millions of consumers enjoy the speed and convenience of contactless payment technology for everyday purchases.

### **Start Offering Contactless Now to Stay Ahead of a Flattening Curve**

Consumers want it. Merchants support it. And no longer can issuers afford



the luxury of time. Keeping your card top-of wallet with cardholders means staying ahead of a flattening curve. The good news is, as a result of the U.S. EMV® Liability Shift of 2015, you probably already issue chip-enabled cards, which means you are halfway to offering customers the security and convenience of dual-interface.

### Consumers Demand the Freedom of Choice

Dual-interface cards offer consumers the choice of payment technologies — contact (EMV chip) and contactless (tap-and-go antenna). The flexibility of payment options is one of many reasons why dual-interface cards are widely considered the base card payment technology moving forward. Here are a few more of the combined benefits of dual-interface cards:



- **They're secure.** The contactless technology of dual-interface offers the same protection as a contact-only EMV card, making them more secure than a magstripe card or cash.



- **They're just plain fast.** Contactless transactions average 15 seconds or less. The reality is we live in a fast-paced, Amazon®-effect world. Time is precious; lines and waiting are unacceptable. In order to keep up, you must offer your

customers a payment option that lets them tap and go.



- **They're easier than cash.** Ease of use could be a large contributing factor for adoption, particularly for transactions under \$25, of which 80% are currently made with cash.<sup>4</sup>



- **They put the cardholder in control.** Contactless payments allow a cardholder to complete a transaction while maintaining possession of their card and without touching the point-of-sale device.



- **Consumers love their cards.** For many of your customers, it's about time for first-gen chip card replacement. What better way to replace outdated technology than with state-of-the-art dual-interface technology that delivers a better cardholder experience that pays off for customers every day.

Contactless cards offer many benefits to your institution, as well. Industry

research shows cards that contain both the chip and antenna grow interchange revenue, increase average card spending, support top-of-wallet status, and increase the potential to convert traditional low-cost, on-the-go cash purchases to cards. Historically, technology has been a key driver of human behavior — interestingly, this time, it's the other way around. Consumer demand for contactless payments is increasing. It's exciting just to be a part of it. It's making lives better, easier, more secure and safer. It's putting power into consumers' hands and peace into their minds. All this makes delivering a complete card program more critical than ever. Let's continue the important discussion about making the move to dual-interface cards for your customers. Find out how innovative card solutions from Harland Clarke can help you meet the growing demand for contactless card technology from consumers and merchants. ■

*Nicole Machado is the executive director of card services for Harland Clarke.*

*Machado is responsible for the overall strategy and operations of Harland Clarke's card business, which includes card manufacturing, central issuance, instant issue, and prepaid solutions.*

<sup>1</sup> "Impact of COVID-19 on Contactless Payments," *The Futurist Group*, May 2020

<sup>2</sup> Fitzgerald, Kate, "Coronavirus brings lessons to retailers, issuers about contactless payments," *PaymentsSource*, April 15, 2020

<sup>3</sup> Gardner, Bill, "Dirty banknotes may be spreading the coronavirus, WHO suggests," *The Telegraph*, March 2, 2020

<sup>4</sup> PR Newswire, "Checkout Turbulence: Ingenico and Freedom Pay Study Reveals Shoppers' Frustrations and Desires at the Point of Sale," January 2020

# ► CDD SPOTLIGHT



## ► Delaina Zellers

*Vice President, Compliance Officer,  
German-American State Bank,  
German Valley, Career Development  
Division (CDD) Secretary/Treasurer*

### ***What do you find most challenging about your job?***

The most challenging part of my job is trying to balance multiple projects and tasks at one time. I think that anyone who works in a community bank would agree that we all work in an environment that is constantly changing and evolving. We have seen firsthand over the past few months how important it is to work as a group and to brainstorm with all departments and staff members. I can always count on my co-workers to help figure out the best solution to any problem, while always keeping our customers' best interests in mind.

### ***What do you find most rewarding about your job?***

The most rewarding part of my job is knowing that I work for a company that not only puts its customers first, but its employees as well. There has always been a focus on rewards and events that encourage employees to have fun and get to know one another. It is rewarding to work with great people who are always there for each other, while working toward the same goal.

### ***What quote most inspires you and why?***

"Always find a reason to laugh. It may not add years to your life but will surely add life to your years." I truly believe that laughter is the best medicine, and during stressful times it can make your day instantly better as well as those around you.

### ***How did you get involved with CBAI?***

I became involved with CBAI through CDD, and have been a member since 2015. In 2018, I had the opportunity to become a group director. My supervisor signed me up to be a part of the CDD group, and I had no idea what to expect. CDD has been an excellent opportunity not only for education, but to network with other members. This past July, I completed my first year of CBAI's Community Bankers

School. While the experience proved to be very challenging, it also provided an additional avenue to network with other community bankers and grow professionally. Our bank continues to value our relationship with CBAI, and all of the opportunities and resources they provide.

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

My husband and I enjoy taking day trips on our motorcycle. We have a lot of friends and family that ride as well, and it is something that we really enjoy doing together. It is also a great way to visit new places, get outside and take advantage of a nice sunny day.

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

I believe that one of the biggest challenges my bank faces is staying relevant when it comes to technology, and continuing to offer customers more options to bank electronically. We are always seeking to evolve our services, and heighten our social media presence.

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

Each year we host an event at one of the local high school basketball games. We have free food, prizes and games for the kids during halftime. It provides an opportunity to show our support for the schools and to interact with the community outside of the bank.

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

If I weren't in banking I could see myself being a real estate agent. I find myself always looking at houses for sale online, even when I am not in the market for one. It drives my husband crazy because I always want him to look at the houses I have found that we are never going to buy! ■



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**COVID-19**

**CBSC Preferred Provider Resources**

CBSC Preferred Providers offer COVID-19 resources to CBAI member banks, including informative articles, FAQs and webinars. A page on the CBAI website has been dedicated to these resources and it will be updated as new information is added.

**[www.cbai.com](http://www.cbai.com)**

## AUGUST 2020

- 04** | 4<sup>th</sup> Quarter CBC Program – Crowne Plaza Hotel, Springfield  
Maximizing Recoveries on Charged-Off Loans 🎧
- 05** | 4<sup>th</sup> Quarter CBC Program – DoubleTree by Hilton, Lisle/Naperville  
Advanced CTR Training: Beyond the “Textbook” 🎧
- 06** | Leading the Retail Banking Team in the New  
Normal of COVID-19 – Shazam Education Center, Springfield  
CEO Forum Group II – Drury Hotel, Mt. Vernon  
Fundamentals of IRA Beneficiary Designations &  
Distributions, Including Secure Act Implications 🎧
- 10** | Senior Lender Groups I - V – Crowne Plaza Hotel, Springfield
- 12** | Leveraging LinkedIn for Lenders 🎧
- 13** | Layered Cybersecurity: Finding the Best Strategy for Your Bank 🎧
- 17** | CFO Forum Group I – CBAI Shazam Education Center, Springfield
- 18** | Operations/Technology Group C –  
CBAI Shazam Education Center, Springfield  
Effective & Compliant Pre-Employment Background Checks 🎧
- 19** | Collections & Right of Set-Off in Commercial Lending 🎧
- 19-20** | Commercial Lending & Underwriting –  
CBAI Shazam Education Center, Springfield
- 20** | Opening Business Accounts: Entities, Documentation,  
Authority & Regulatory Requirements 🎧
- 21** | CEO Forum Group V – DoubleTree by Hilton, Lisle/Naperville  
CEO Forum Group VII – DoubleTree by Hilton, Lisle/Naperville  
CFO Forum Group II – CBAI Shazam Education Center, Springfield
- 24-25** | Training the Credit Analyst: Beginner –  
CBAI Shazam Education Center, Springfield
- 25** | Operations/Technology Group A –  
CBAI Shazam Education Center, Springfield  
Advanced IRA Beneficiary Issues: Death Distribution  
Calculations, Trusts, Successors & Secure Act Rules 🎧
- 26** | Cutting-Edge Consumer Payments: Beyond PayPal & Venmo 🎧
- 26-27** | BSA Grad School – CBAI Shazam Education Center, Springfield
- 27** | Operations/Technology Group D – Drury Hotel, Mt. Vernon  
CEO Forum Group IV – Grizzly Jack's Grand Bear Resort, Utica  
Liability with ACH Death Notification  
Entries (DNEs) & Reclamations 🎧

## SEPTEMBER 2020

- 01** | Marketing Group A – CBAI Shazam Education Center, Springfield
- 02** | Legacy Planning: Not a Necessary Evil but an Opportunity  
to Do Good – CBAI Shazam Education Center, Springfield  
Marketing Group B – CBAI Shazam Education Center, Springfield  
SAFE Act Compliance for Mortgage Loan Originations (MLOs) 🎧
- 03** | Marketing Group C – CBAI Shazam Education Center, Springfield  
CEO Forum Group VI – BKD, LLP Headquarters, St. Louis
- 09** | Cybersecurity Assessment Tool 2.0 & GLBA Privacy 🎧
- 10** | Operations/Technology Group E –  
Grizzly Jack's Grand Bear Resort, Utica  
10 Lessons Learned When A Depositor Dies 🎧
- 11** | Operations/Technology Group B – DoubleTree Hotel, Lisle/Naperville
- 15** | Call Report Regulatory Capital: Standards, Ratios, Risk Weighting 🎧
- 16** | Building the Best Possible Board Meeting: From Agenda to Action 🎧
- 17** | The 15 Worst Security Mistakes 🎧
- 22** | UCC-1 & UCC-3 Financing Statements Line-by-Line:  
Filing, Amending & Renewing 🎧
- 23** | Ag Lending Compliance, Including Industrial Hemp 🎧
- 24** | Avoiding Costly Mistakes in Calculating Debt Service Coverage 🎧
- 24-26** | CBAI's 46<sup>th</sup> Annual Convention & Exposition –  
JW Marriott Hotel, Indianapolis, IN
- 29** | FFIEC Requirements for a Remote Deposit Capture Risk Assessment 🎧
- 30** | Mastering Escrow: Analysis, Rules, Forms & Compliance 🎧



CBAI Webinar

# Rare Court Victory for a Guarantor

Jerry Cavanaugh, CBAI General Counsel, Springfield, IL

I have read dozens of State or Federal court opinions addressing enforcement of guarantors' obligations, and I can only recall reading one in which the guarantor escaped liability, at least until the May 2020 opinion handed down by the Third District Illinois Appellate Court in the case of *Performance Food Group v. Ariva Hospitality*.

The reason that it is difficult for a guarantor to avoid liability after default by the principal borrower is that guarantees are interpreted strictly under basic contract law, and in an enforceable contract, the courts will give effect to the literal terms of the contract. Thus, an effectively-worded guaranty that comprehensively fences the guarantor in to air-tight terms providing the broadest possible liability and eliminating all conditions or loopholes (for instance, whether the guarantor is off the hook based on anything that the principal borrower did or failed to do) will be enforced according to its terms.

A party to an alleged contract can attempt to void the contract by raising defenses such as lack of mutual consideration or fraud in the inducement of the contract (i.e., knowingly providing misinformation that is relied upon by the guarantor when (s)he makes the decision to guarantee the note).

What mutual "consideration" does a guarantor receive from accepting personal liability for a loan made to another person? Courts presume that a guarantor has an interest in the loan being made; there is no historic example of a guaranty by a random stranger for a loan to a person where the guarantor doesn't care whether or not the loan is made.

As I mentioned above, in only one court case had I seen a guarantor escape liability, and that was due to a sloppily drafted guaranty that provided an escape route for the guarantor. Unlike that case, the guaranty form in the recent *Performance Food Group* case appeared to be sufficiently comprehensive, but, as in all cases, the specific, unique

details of each case influence its outcome, which is why my columns never provide **legal advice** but instead are for informational purposes only. In the event of an actual dispute, it is your bank's own attorney who would examine all of the relevant facts and seek to apply relevant case law.

What unique facts let the guarantor off the hook in the *Performance Food Group* case? Guarantor was the general manager of a hotel. The hotel's ownership group contracted with *Performance Food Group* ("Creditor") for food supplies and services. In 2015, such a food service contract was executed and a personal guaranty was given by Guarantor. The guaranty contract was well-drafted and provided for Guarantor's liability for all debts no matter when incurred, with no termination date. However, Guarantor left the hotel in 2017 and, after hotel defaulted on payment obligations arising from a 2019 food purchase contract, Creditor sought to enforce the guaranty.

Both the trial court and, on appeal, the Illinois Appellate Court for the Third District ruled that, even though the original 2015 guaranty claimed to cover all debts, whenever incurred, and had no termination, the ensuing circumstances between 2015 and 2019 caused a breach in the contractual bargain between Creditor and Guarantor; there was no mutual understanding (i.e., "meeting of the minds") that Guarantor would be obligated for eternity even after he no longer had any involvement with hotel and, in a related sense, there was no mutual "consideration" for the purchase deal in 2019 because Guarantor (having left the hotel's employment two years earlier), had no stake regarding whether he wanted to influence or enhance the likelihood of that extension of credit. ■

*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 [jerry@cbaicom](mailto:jerry@cbaicom).*



# Member News

**Rachel Wicklund**, 39, chief compliance officer at **Goodfield State Bank**, was recently named to ICBA's annual "40 Under 40" Emerging Community Bank Leaders. The list recognizes up-and-coming community bank innovators and influencers who represent the future of the industry. Wicklund doesn't just understand the demands of a strong compliance management system; she embraces them. Wicklund extended teamwork beyond her Goodfield State Bank colleagues by reaching out to another local community bank to explore an arrangement where each bank's compliance officer helps the other bank to perform required audit functions. The initiative is now in its third year and has allowed both community banks to conserve resources, remain independent and better serve their communities.



*Rachel Wicklund, Goodfield State Bank*

**First National Bank of Steeleville** recently announced that **Nathan P. Schatte** has joined the bank as an agriculture and consumer loan officer. Schatte joins FNB with 20 years of experience in the agriculture industry and nearly six years of experience in ag lending. Schatte graduated in 2004 from Southern Illinois University in Carbondale and holds a B.S. in general agriculture and a M.S. in agriculture business economics.

**Farmers and Merchants Bank of Hutsonville** was recently inducted into the CBAI Centurial Club for attainment of 100 years of dedicated community service. A plaque was presented by Andy Burkett, CBAI vice president of member services (downstate Illinois), to **Tina Callaway**, president/CEO.



*Andy Burkett, CBAI, and Tina Callaway, Farmers and Merchants Bank of Hutsonville*

**Kim Kleinschmidt**, CEO of **Rochester State Bank**, retired on June 30 after 43 years in banking. He will remain on the board. Kleinschmidt will be replaced by **Gary Bohner**, formerly vice president at the bank.

**Van Aldridge**, **City National Bank of Metropolis**, has been promoted to vice president. He has more than 30 years of IT experience in the financial industry. Aldridge joined the bank from Computer Services, Inc., Paducah, KY, where he most recently worked as a professional services engineer. **Jared Quint** has been promoted to senior vice president. Quint has been with the bank for 12 years, holding the positions of loan officer, security officer and vice president.

**Kenneth H. Emme** retired after 61 years of service at **Havana National Bank**. Emme has served as a director

on the Havana National Bank Board since 1984, and Community Investment Group, Ltd. Board since inception in 2000. On March 30, 1959, he was hired as a teller at Havana National Bank. In 1961, Emme was called to active duty and continued to serve in the USAF and Air National Guard for a total of eight years. Following active duty, he returned to Havana National Bank as a teller and promoted several times over the years, including in 1968 to the Consumer Loan Department, in 1970 to the manager of the Consumer Loan Department, in 1974 to vice president in the Commercial Loans, Ag Loans & Home Mortgage Loans Department, in 1981 to vice president and cashier, in 1982 to executive vice president, and in 1984 to president and CEO, as well as to the board of directors. In 2004, he retired as president and CEO, but has remained on the board of directors.

**German American State Bank, German Valley**, recently hired **Warren Laube** as president and CEO. Laube has approximately 20 years of prior bank management experience working with several different banks in southern Wisconsin. The bank's previous president, **Jeff Sterling**, has assumed a senior lending role as he transitions to retirement.

**Shelby County State Bank, Shelbyville**, recently attained 125 years of dedicated community service. To celebrate the anniversary, a plaque was presented by Andy Burkett, CBAI vice president of member services (downstate Illinois), to **Gwen Helton**, president/CEO.



Gwen Helton, Shelby County State Bank

**TrustBank, Olney**, recently added **Mark Richardson** to their wealth management team. Richardson brings more than 20 years of investment and insurance experience.

**Andrew Black, president & CEO**, recently celebrated 25 years at **Princeville State Bank**.

**Anchor State Bank** recently celebrated its 125<sup>th</sup> anniversary. Lesa Black, CBAI vice president of member services, presented a plaque to commemorate the event to **Jim Eckert**, president. Anchor State Bank was founded in March of 1895 by W. E. McReynolds and R. Stagner. Officially, the bank would have been known at the time as McReynolds and Stagner, Bankers, but it was always referred to locally (and still is) as "Anchor Bank." The bank received its state charter in December 1920.



Jim Eckert, Anchor State Bank

**Kenton W. Day, CPA**, was hired as the chief financial officer at **Security Bank, s.b., Springfield**. The bank has also announced the promotions of **Emily Collins** to assistant vice president, BSA and compliance officer; **Tammy Gilchrese** to assistant vice president, loan servicing; and **Chris Willoughby** to deposit operations manager.

**First Vandalia Corp.**, parent company of **The FNB Community Bank**, elected **Zac Stombaugh** to serve on the board of directors at the annual stockholders' meeting. A well-known businessman in Vandalia, Stombaugh is the fifth generation to operate Stombaugh Heating and Air Conditioning, a company that got its start in 1911. He is a 2000 graduate of Vandalia High School and a 2004 graduate of SIU-Edwardsville with a degree in mechanical engineering. In 2020, he achieved his Professional Engineering (PE) license.

**Bradford National Bank** introduced **Bradford Wealth Management**, its rebranded investment services division led by Financial Advisor **Nate Henna**.

**State Bank of Pearl City** recently announced a new division, **Pearl Investment Services**. Financial Advisor **Robbie Minor** will lead the new endeavor.

**Quad City Bank & Trust (QCBT)** recently announced Executive Vice President and Chief Relationship Officer **Laura Ekizian** will be promoted to president, reporting to **John H. Anderson**, QCBT CEO and QCR Holdings, Inc. chief deposit officer. With QCBT's portfolio reaching nearly \$2 billion in assets, the decision to separate the CEO and president roles will help support the bank's growing client base and evolving service offerings. Ekizian has been with QCBT for 20 years.

**Midwestern Securities Trading Company, LLC (MSTC)** recently announced that **Maya Valdez** has obtained the FINRA Series 7 securities license. She is training to become a financial advisor as part of the MSTC *fastTrack*<sup>™</sup> Program.

**Buckley State Bank** is celebrating 100 years of serving the local communities. **Jacqueline Weber**, president, and **Jodi Behrens**, vice president, are pictured accepting this plaque for 100 Years of Dedicated Community Service from CBAI. Buckley State Bank is planning a community celebration in 2021.



L to R: Weber and Behrens

**Midwest Bank, Monmouth**, is celebrating their 150<sup>th</sup> anniversary. **Lesla Black**, vice president of member services, presented a plaque to **Chris Gavin**, president/CEO, to commemorate the occasion. ■



L to R: Gavin and Black

# Welcome New Members

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## Foundation Report (July 2020)

### Donation News

**Howard & Howard Attorneys PLLC** made the final payment toward their \$50,000 pledge.

**Buena Vista National Bank, Chester,** held a dress-down day and donated \$100 to the Foundation.

**Kraig Lounsberry, CBAI,** made a donation to the Foundation.



**Andy Burkett** retired from Community BancService Company on June 30, 2020. Burkett joined CBSC on July 1, 2012, as vice president of member services, downstate Illinois, after a nearly 30 year career as vice president of sales at CSI, Paducah, KY. Before CSI, he worked in the banking industry for more than 10 years.

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