THE SHOW-ME

# Banker

AUGUST 2021

THE VOICE FOR MISSOURI'S INDEPENDENT BANKERS

## LEGAL EAGLE SPOTLIGHT

### EFFECTIVELY USING A RECEIVER

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MIBA
Missouri
Independent
Bankers
Association

THE SHOW-ME Banker

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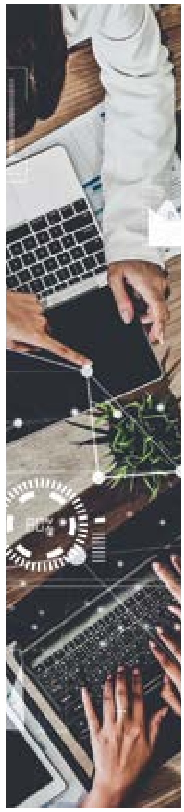
# INSIDE THIS ISSUE



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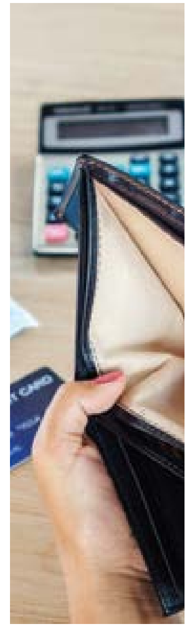

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"Wednesday morning's MIBA/ICBA Partnership Breakfast is followed by the popular Legal Eagle Hot Topics Seminar and Regulator Panel. Please register today and join us at The Lake. Don't miss our 2021 September community banking celebration."

# PRESIDENT'S MESSAGE

Community Bankers, it is time, once again, to gather at The Lake of the Ozarks to celebrate community banking in Missouri. MIBA and ICBA are the organizations serving as the exclusive voice of our industry: community banking! I invite you to show your commitment to our cause and join community bankers from across the state at the 44th Annual MIBA Convention and Expo at The Lodge of Four Seasons, Sept. 13-15, 2021.

You will find presentations from industry experts, educational and networking opportunities and access to the latest banking products and services; all brought to you by MIBA to help join forces and educate our community bankers. The information and ideas shared at this event will prove to be an invaluable resource to you and your institution.

Our program kicks off Monday morning with our Annual MIBA Golf Tournament at The Cove, a Robert Trent Jones Sr. signature golf course. Monday evening, we will have our Opening Reception & Exhibit Hall Mixer in the Exhibit Hall from 5:00 pm – 7:00 pm, followed by a rooftop rendezvous in the Valencia Room from 7:00 pm – 9:00 pm.

On Tuesday morning, exhibitors are free to join bankers for a sumptuous breakfast buffet followed by the General Business Session. Tuesday's lunch will be served in the Exhibit Hall, where once again Missouri's largest banking trade show will be on display: nearly 75 businesses offering products and services of exceptional quality to meet the particular needs of community bankers. This will be your chance for one final tour of the exhibits, lunch and prize drawings.

As in the past, we invite our member banks to register their purchasing officers for the Tuesday exhibit hall activities at no charge. Just contact the Association offices to register your employees' complimentary attendance to view the latest bank products and services. The MIBA Scholarship Silent Auction will take place Tuesday afternoon starting at 4:30 pm in the Granada

I invite you to show your commitment to our cause and join community bankers from across the state at the 44th Annual MIBA Convention and Expo.

Ballroom and will offer an extensive array of items for silent bidding. Join us Tuesday evening for a semi-formal President's Dinner/Lobster Fest and Entertainment where we will introduce the incoming officers for 2021-2022, followed by the MIBA Scholarship Live Auction.

Wednesday morning's MIBA/ICBA Partnership Breakfast is followed by the popular Legal Eagle Hot Topics Seminar. Please register today and join us at The Lake. Don't miss our 2021 September community banking celebration.

Advocacy, Loyalty and Education for Missouri Community Bankers! ▪

# FROM THE TOP

When it comes to implementing new technology, community banks have been faced with challenges. For one, we often don't have the internal bandwidth to build the solutions we want, so we must seek products that exist in the marketplace — and that can feel like searching for a needle in a haystack. Once we find the right product, it has to integrate into our core systems. And when a product or service doesn't perform, we may let it limp along instead of sunsetting it.

While these issues present challenges, we are entering a new era, one with much more potential on the horizon. My optimism stems from participating in the ICBA ThinkTECH Accelerator program, which delivers best-of-the-best solutions directly to community banks.

The accelerator companies understand community banks and how to work with us. The program directly connects them with community bankers who provide guidance on how to make their products stronger. ICBA evaluates participants with community bank needs in mind, making it easier for community banks looking to partner with them. By the time the companies complete the accelerator, they are ready to go to market with community banks.

While not every accelerator solution is relevant to every bank, the offerings are designed to address our specific pain points. In fact, my bank has signed on multiple companies from the latest cohort to support our efforts. Because of the detailed insights from ICBA, the onboarding process was nominal, and these companies were able to get up and running quickly within our organization.

At Tioga State Bank, we have never been bleeding edge, but we are leading edge. For example, we implemented online banking in 1997 with Jack Henry & Associates when it went live, and we've always tried to be first to market with the technology that customers want. Over the years, our tech philosophy has evolved. We've come to terms with the fact that not every solution we implement will be a forever product.

In today's marketplace, we can't be afraid to experiment and fail. So, as we dive deeper into the digital customer experience in this issue, let's embrace some out-of-the-box, entrepreneurial thinking to attack our problem areas. To remain competitive, we have to step up and try different things to meet burgeoning expectations. Sure, not every solution will work. But if we don't try, we'll never know just how far we can go. ▪

### My Top Three

In the spirit of technology upgrades, here are my top three must-have devices:

1. A 12.9-inch iPad Pro, my go-to for work travel
2. A heads-up display (HUD) in my car
3. A Sonos wireless sound system

*Connect with Robert @RobertMFisher*

**Robert M. Fisher**

Chairman of the ICBA

@RobertMFisher

"In today's marketplace, we can't be afraid to experiment and fail. … [L]et's embrace some out-of-the-box, entrepreneurial thinking to attack our problem areas."

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Rebeca Romero Rainey

IBCA President & CEO

@romerorainey

# FLOURISH

Recently at the dinner table, my family had a fascinating conversation about the merits of short stories versus novels. My daughter, an avid reader, made the case that the novel is the superior form of storytelling because it allows the piece to deepen and evolve. My husband, on the other hand, argued that with a short story, every word counts, and that critical focus creates a vivid snapshot of an experience.

As they bantered back and forth, I was struck by how much the conversation reflected the nature of community banking. Relationships drive all that we do, so community bankers are in it for the long haul, sitting with our customers as they write each page of their stories. Community banking isn't driven by a finite moment or a single transaction. Instead, it's a journey where today's efforts are only one chapter of the larger narrative.

Yet, we do have these intense moments in time, events that happen in spurts and unfold like parts of the larger story. Consider the Paycheck Protection Program (PPP). Community banks became the heroes of that particular tale by responding quickly and serving both customers and noncustomers at a much greater rate than megabanks or credit unions. We saw a need and determined a course of action, resulting in a positive experience for our customers.

I have been struck by the way the PPP opened a new chapter for community banks. As we think about what's next for the new relationships we made through the PPP, we have an opportunity to grow and expand our relationship base. We were able to take what was a short-term, crisis-mode response and translate it into long-term customer potential.

That spirit of opportunity in relationship building enables community banks to thrive. This month's issue explores the topics of lending best practices, growth strategies and the digital customer experience. These stories can help you think about your community bank in new ways to meet market fluctuations and customer needs.

Because while we can't predict what the future holds, we can continue to shape the narrative with our customers and potential customers. Leading with the relationship and keeping the focus on a deeper, more meaningful dynamic while readying ourselves to respond to market changes as they arise prepares us for what's to come. And with this expertise as our background, we're well-positioned to continue writing new stories with our customers, now and into the future. ■

"While we can't predict what the future holds, we can continue to shape the narrative with our customers and potential customers."

### What you need to know

The Fourth of July celebrates independence and for 91 years, ICBA has been advocating for independent community banks. We have been and will continue to be here for you. We hope you all had a Happy Independence Day!

*Connect with Rebeca @romerorainey.*

# A VIEW FROM THE CAPITOL

**Congressman Blaine Luetkemeyer**

Missouri's 3rd Congressional District

Recently in the Financial Services Committee at a hearing entitled "A Biased, Broken System: Examining Proposals to Overhaul Credit Reporting to Achieve Equity," Chairwoman Waters and the majority made clear their efforts to move toward a government takeover of the financial services industry are moving full speed ahead.

By rule, congressional hearings must have legislation tied to them. This particular hearing corresponded with Democrats' legislation that would create a government-run credit bureau within the Consumer Financial Protection Bureau. This proposal would mean the government would be determining whether a person is creditworthy within the United States. The government would also determine how much of a person's lending history would be available to banks when considering loan applications. This proposal came on the heels of another hearing on the Fintech Taskforce, where the majority proposed on numerous occasions the idea of public Fed Accounts and Postal Banking.

While it might not always sound like it, I do my best not to get political in these columns. The purpose is to inform you on what is happening in Congress and how it affects community banks. The fact of the matter is the ideas gaining traction in the House Financial Services Committee are beyond concerning. Democrats (not one Republican supported it) are pushing changes in the law so that not only does the federal government decide who is eligible for a loan, but in many cases, they are the ones who will lend it. In this Congress, along with my duties on the Financial Services Committee, I am the Republican Leader of the House Small Business Committee. At every turn, the Small Business Administration has sought to increase its direct lending and granting authority while cutting out private sector involvement. Those of us who have been around a few decades remember the farm credit crisis in the 70s. Cheap, easy money loaned directly from the government took farm debt to an unprecedented level, and when the music stopped, countless farmers were left in ruins. Those tough lessons have been forgotten or were never learned by some of my colleagues.

Recently, my focus has been on keeping our regulators in their lane. I have reintroduced my bill to create a five-person, bipartisan commission to replace the single director position at the CFPB. The Bureau is constantly being used as a political football, and its director wields so much power that the Supreme Court grappled with whether the position was even constitutional. Allowing one person to hold such unchecked power over our economy is irresponsible and verges on negligence. My bill would provide increased accountability and transparency so the American people can trust the CFPB to do its job without political motivation.

Currently at the CFPB, we have an Acting Director – who has not been confirmed by the Senate – making major policy decisions without the proper authority. He has taken nine enforcement actions, rescinded administration guidance on the CFPB's policy for combatting "abusive" industry practices, delayed the implementation of the Debt Collection Rule, and is moving full speed ahead on a rule to implement Section 1071 of Dodd-Frank, which requires banks to compile, maintain, and submit even more data to the CFPB. There have also been very concerning reports that the CFPB has used threatening tactics and started investigations into senior career staff to remove them from the Bureau due to their political affiliation. This could potentially violate the Civil Service Reform Act.

The need for a bipartisan commission at the CFPB has never been clearer, and I will continue working on getting my legislation passed to create order at the CFPB and allow it to function as it was designed. In the meantime, please continue to keep in touch with my office and let us know where we can help. ▪

"Recently, my focus has been on keeping our regulators in their lane. I have reintroduced my bill to create a five-person, bipartisan commission to replace the single director position at the CFPB."

# LEGAL EAGLE SPOTLIGHT

## EFFECTIVELY USING A RECEIVER


**Andrea Chase**

Spencer Fane LLP

**Eric C. Peterson**

Spencer Fane LLP

In recent years, secured creditors have become more familiar with using receivers as one method of protecting and liquidating collateral. In 2016, Missouri enacted the Missouri Commercial Receivership Act (MCRA), which provided a comprehensive statutory framework for receiverships.

MCRA has increased creditors' comfort with receivership. This article will provide some helpful background information and tips for effectively utilizing a receiver.

### I. Overview

Receivership can be a beneficial tool. A receiver provides a level of control over the debtor's assets and oversight over the debtor's business. Rather than simply foreclosing on collateral, a receiver can continue to operate a business under court supervision. A receiver may also sell a business as a going concern.

In Missouri, the appointment of a general receiver[1] stays non-receivership litigation and the exercise of creditor remedies for a limited period. MCRA also provides a process for claims administration if there are funds to be distributed after secured creditors are paid.

There are drawbacks. Among them are the costs of paying for the receiver and its professionals. Generally, receivership expenses are paid from the assets of the receivership estate. Additionally, while the secured creditor may be the one proposing the appointment of a specific receiver, the receiver is an arm of the court, not the secured creditor. There is, therefore, a potential for some reduction of influence over the secured creditor's collateral.

### II. Selecting a Receiver

The receiver can be an attorney or an accountant, but it does not have to be.

Under MCRA, almost any qualified non-insider who meets the "disinterestedness" test can serve as a receiver. Who a creditor selects as its proposed receiver will depend on the circumstances of the case. The secured creditor will consider the individual's previous experience in serving as a fiduciary or operating a


business. The creditor will also consider whether any particular expertise is necessary, such as experience with real estate or agricultural property.

## III. Preparing to go to court

Before heading to court to seek the appointment of a receiver, the secured creditor and its attorney should do a thorough review of the creditors' loan documents and collateral position. If the creditor discovers any issues, the creditor may consider entering into a forbearance agreement with the debtor to resolve them. This review will also help prepare the creditor for arguments that the debtor may raise to contest the appointment of a receiver.

## IV. Receivership Administration

In Missouri, the appointment of a receiver begins with the complaint, application to appoint a receiver, proposed order and related documents. After filing the initial pleadings, there will be a hearing on the application to appoint a receiver. In addition to MCRA and applicable case law, the receivership will be governed by the terms of the order appointing the receiver.

Throughout the case, a general receiver will file monthly reports of its operations and financial affairs. A receiver can also sell the property of the receivership estate. MCRA specifically grants an available receiver the power to sell property free and clear of liens[2], with liens attaching to proceeds. If necessary, the receiver can administer claims of other creditors. When the receiver has finished liquidating the assets and distributing proceeds, the court will discharge the receiver from its duties. ■

Receivership can be a beneficial tool. A receiver provides a level of control over the debtor's assets and oversight over the debtor's business.

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*Andrea Chase is an associate in the Kansas City, Missouri, office of Spencer Fane LLP. Eric Peterson is an of counsel attorney in St. Louis, Missouri, office of Spencer Fane LLP. They are members of the firm's Bankruptcy, Restructuring, and Creditors' Rights Group.*

*[1]Under MCRA, there are two types of receivers – general and limited. General receivers control substantially all of the debtor's non-exempt property. Limited receivers control a limited portion of the debtor's property.*

*[2]There are some exceptions to the general receiver's ability to sell free and clear, which are set forth in the statute.*

# 2021 MIBA PAC HONOR ROLL

Contributors to the MIBA Political Action Committee are recognized for their generosity on the Association's website and at the MIBA Annual Convention and Exhibition. Different levels of contribution have been set to recognize supporters of our Political Action Committee fund and to make the Association's membership more aware of this important facet of our work on behalf of the political agenda of community banks across Missouri.

*Note: personal or corporate campaign contributions to any PAC are not deductible in any amount for federal tax purposes.*

**PRESIDENT'S FAIR SHARE LEVEL**
$10 per Million in Deposits up to 250M Cap

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- Adrian Bank
- Bank of Advance
- Bank of Iberia
- Bank of Louisiana
- Bank of Old Monroe
- Bank of St. Elizabeth
- Bank of Salem
- Blue Ridge Bank & Trust, Independence
- BTC Bank, Bethany
- Community Bank of Pleasant Hill
- Community Bank of Raymore
- Community State Bank of Missouri, Bowling Green
- Exchange Bank of Missouri, Fayette
- Exchange Bank of Northeast Missouri, Kahoka
- Farmers Bank, Green City
- Farmers & Merchants Bank, St. Clair
- First Independent Bank, Aurora
- Jonesburg State Bank
- Metz Banking Company, Nevada
- Midwest Independent BankersBank, Jefferson City
- New Frontier Bank, St. Charles
- Northeast Missouri State Bank, Kirksville
- Peoples Bank & Trust Co., Troy
- Peoples Bank of Altenburg
- Peoples Bank of Wyaconda
- Preferred Bank, Rothville
- Regional Missouri Bank, Marceline
- Security Bank of the Ozarks, Eminence
- Sherwood Community Bank, Creighton
- The Missouri Bank, Warrenton
- Town & County Bank, Salem

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$750 and up

- Mid America Bank, Jefferson City

**GOLD LEVEL**
$400-$749

- Bank of Monticello
- Commercial Bank, St. Louis
- Community Point Bank, Russellville
- Legends Bank, Jefferson City

**SILVER LEVEL**
$200-$399

- Bank of Crocker
- Chillicothe State Bank
- Silex Banking Company
- State Bank of Missouri, Concordia
- The Callaway Bank, Fulton

**INDIVIDUAL**

# MIBA LOBBYING
## REPORT


**Andy Arnold**

Arnold & Associates


Since my last post, Governor Parson signed two bills into law: SB 106, sponsored by Sen. Sandy Crawford & Rep. Bill Owen, continues the modernization of Chapter 361 (Financial Institution Regulation); and HB 697, sponsored by Rep. Bruce DeGroot and Sen. Sandy Crawford that revises the Property Assessment Contract Energy program (PACE). MIBA Executive Director Matt Ruge and I attended the bills' signing in Jefferson City June 29 in the Governor's Office. Both bills will take effect Aug. 28, 2021.

Also, since my last post, the regular session of the Missouri General Assembly has ended, as well as a special session called by Governor Parson to address the renewal of the Federal Reimbursement Allowance (FRA). FRA is the mechanism used by the state where Missouri Medicaid providers tax themselves to draw down federal Medicaid dollars. Without this mechanism, Missouri would be approximately $4 billion short of the funding needed to reimburse nursing homes, hospitals and qualified health care facilities (QHC's) for patient care and services. The legislature passed the FRA (SB1) June 30, just before the July 1 deadline.

This year was challenging as only 70 bills and joint resolutions passed the legislature this session, so to have two bills MIBA wanted approved is a significant accomplishment. Providing a voice on behalf of the Community Banks with the Missouri General Assembly and the statewide elected officials and their staff is critical to getting good legislation passed or bad legislation defeated. As always, it was our pleasure working with Matt and the MIBA staff to represent the MIBA in this endeavor. ■

MEET YOUR

# MISSOURI BANKER

**Name:** Carla Angel | **Title:** Vice President and General Counsel

**Bank Name:** Peoples Bank & Trust Co.

### Where are your main bank and branches located? What is the market like?

Our main bank is in Troy, Missouri, with branch locations in Troy, Hawk Point, Bowling Green, Elsberry, Winfield, O'Fallon, and Cottleville. Our market is primarily focused on residential and commercial, with some ag lending as well. The housing market is still doing very well in our area, which equates to closing numerous residential loans and financing homebuilders.

### What is something unique about your bank?

We are part of a multi-bank holding company, with five separate bank charters and bank names all owned by the same company – Lincoln County Bancorp, Inc. As in-house counsel, I provide legal advice and services to all of the banks within the holding company.

### How did you get started in the banking business?

I was hired as a part-time bank teller at the beginning of my sophomore year of college. I maintained that position throughout my undergraduate studies. When I was accepted into law school, I began assisting the bank's in-house counsel at the time – Dale Cope. After I graduated from law school and passed the bar exam, I was hired full-time as assistant general counsel. After over 40 years of service to the bank, Mr. Cope recently retired and I have been promoted to general counsel.

### What is the most important thing you've learned from this career so far?

There is always something new to learn! Just when you think you have a handle on the rules and regulations, a proposed rule change is published, and the learning process starts all over. Sometimes that can be a little overwhelming, but at the same time, it keeps work interesting.

### Tell us about the Bank's community investment efforts.

Our bank is very involved in supporting our communities. Whether that's donating to local schools, food pantries, or supporting our local Chamber of Commerce, we care about the people and businesses that make our communities great places to live and work. In addition to monetary support, we also provide support through products and services that help our customers manage their finances. Additionally, we provide a lot of education to our customers and the public to help them be better informed about finances and ways to protect themselves from identity theft, frauds, and scams. We post a lot of information on our social media outlets and information on our website. Our goal in disseminating this information is to help all consumers, not just Peoples Bank customers.

### What is the Bank's biggest challenge in the area of internet banking/mobile banking?

Protecting our customers from online scams! The scam artists are compelling, and even with our efforts in communicating awareness to our customers and the public in general, we still see a lot of victims.

### What's your favorite thing about your bank/banking in general?

I am proud of my bank's involvement in the communities we serve. Whether it's volunteering for functions or sponsoring events, we are always showing our support.

### If you didn't have a career in banking, what other career would you choose?

Going to law school was always in my career plan, so I would likely practice with a law firm or possibly as a sole practitioner. ▪

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*For more information, visit pbtc.net.*

# NEWS
## FROM YOU

## About Mid America Bank

Established in 1914, Mid America Bank serves customers from six locations in central Missouri. Mid America Bank prides itself on being a proud, locally owned and operated bank that's good for you and your community too! Visit us online at midambk.com or call the marketing department at 573-635-0019.

## **Mid America Bank** Hires Walz as VP Treasury Management Officer

Jefferson City, Missouri — Mid America Bank is pleased to announce Cheri Walz has joined the Bank as VP Treasury Management Officer. In this role, Walz will be responsible for sales, administration and development of the bank's treasury management products and services, as well as digital banking solutions. Walz brings more than 25 years of banking experience with a background is in finance, accounting, treasury management and bank operations. Before moving to lead the Treasury Management Department at Providence Bank, she held the role of CFO for the prior 15 years at two different banks, Town and Country Bank and Midwest Independent Bank.

Walz holds a Bachelor of Science degree in Accounting. Additionally, she completed the Graduate School of Banking from Stonier as well as the Wharton Leadership program. Walz is a certified public accountant (CPA), certified Treasury professional (CTP), and certified fraud examiner (CFE).

Outside of work, Walz and her husband Ted reside at Lake of the Ozark, where they enjoy boating and spending time with family. Walz is also a member of Christ the King Church. ▪

## **Mid America Bank** Hires Rademan as AVP Loan Operations Officer

Jefferson City, MO – Mid America Bank is pleased to announce Nicole Rademan has joined the Bank as AVP Loan Operations Officer. In this role, Rademan will be responsible for enhancing the bank's core system and technology of loan products, process efficiencies, procedures, training, and other responsibilities of the Loan Department. Rademan brings more than 17 years of banking experience to Mid America Bank. Previously she served as a Loan Documentation Manager and most recently as Strategic Project Manager for Providence Bank.

Rademan holds a Bachelor of Science Degree in Business Administration, emphasizing Business Management from Columbia College. She also graduated in 2019 from the Graduate School of Banking in Madison, Wisconsin, which included an Executive Leadership Certification from the University of Wisconsin.

Outside of work, Rademan and her family reside in Wardsville, where they are involved with their boys' sports activities and enjoy fishing, swimming and spending time outdoors. Rademan also volunteers with the United Way of Central Missouri. ▪

# Laura Kamienski Joins **Community Bank of Raymore** as Vice President in Trust Department

**Laura Kamienski**

Community Bank of Raymore

Laura Kamienski has joined Community Bank of Raymore as a Vice President in the Trust Department. She received her Bachelor of Business Administration, majoring in finance and economics, from the University of Iowa Tippie College of Business. She then earned a J.D. from the University of Chicago Law School in 2005. After 12 years of private practice in Chicago and Iowa, Laura joined the trust department of a community bank in Iowa, where she worked before coming to Community Bank of Raymore.

Community Bank of Raymore has locations in Raymore, Peculiar and Harrisonville. It assists consumers and businesses in meeting their banking and wealth management needs. Its trust department associates work with families to help them understand what estate planning options they have and then to implement the plan the families establish. ■

*To learn more about the Community Bank of Raymore, please visit cbronline.net, or call (816) 322-2100.*

# **Bank of Old Monroe** BOOM Announces Leadership Transition

**Darrell Harke**

Bank of Old Monroe

The Bank of Old Monroe (BOOM) board of directors announced president and CEO Darrell Harke will retire effective Sept. 1, 2021. "Darrell has done an excellent job of leading the bank through a period of significant growth," said Board Chair Dave Molitor. Harke's successors will be Dale McDonald, CEO, and Casey Hopkins, president.

Over the past 31 years, Harke has seen the bank grow from $40 million to over $500 million in assets and expand from a two-branch bank to five branches spanning Lincoln and St. Charles counties. Dale McDonald joined the bank in 2001. He began his career with BOOM as a compliance officer, and was promoted to EVP/CFO and joined the board of directors in 2005. Hopkins joined the bank as a loan officer in 2006 and grew his loan portfolio expeditiously. His ascent to leadership came in 2019 when he was promoted from senior vice president to executive vice president.

"Our customers, employees and the communities we serve are what have allowed me to fulfill a successful banking career. I consider myself blessed to have had the opportunity to serve this great organization. I feel confident leaving the bank in the hands of two very talented and tenured individuals such as Dale and Casey," said Harke.

Harke will work through the end of August to facilitate a smooth transition. Upon retirement, he will remain on the board and serve as a bank and holding company director.

"As CEO, I am excited to continue leading the bank, building on our history of high performance while planning for future growth. I also look forward to working alongside Casey, who shares the same passion for our bank. His drive coupled with his vast skill set makes him a natural fit for president," said McDonald. ■

*Charla Whalen-Mueller*
*AVP Marketing*
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*636-462-0872*

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Continued from page 15

# **Sherwood Community Bank** Glazner to retire as Senior Lender, Sloan joining

After 36 years in banking, Ralph Glazner is set to retire from Sherwood Community Bank.

Ralph Glazner is set to retire at the end of June from Sherwood Community Bank. Ralph has been faithfully serving his community for over 36 years as a banker. He began his career with 5 years at Commerce Bank before moving to Bank 10, now Hawthorn Bank, in 1990. In 2008, Glazner joined Sherwood Community Bank as senior lender and has served in his position for 13 years.

Tracy Sloan, Sherwood Community Bank President: "Ralph's lifelong community focus is evident from his work with 4-H through his leadership of many local businesses through the difficulties of COVID. He has consistently served his community through organizations like Rotary club, various non-profit ministries, and the local Shepherd's Staff Food Pantry. We are thrilled for Ralph in his retirement, but we at Sherwood Community Bank will greatly miss him, his wit, and his expertise."

Sherwood Community Bank will host a come and go retirement reception open house to honor Ralph on June 30th at the Harrisonville branch from 10 am to 2 pm.

Ralph spent his final month with Sherwood Community Bank in training his replacement, Aaron Sloan, sharing his priceless wisdom that comes along with 36 years of industry expertise. Sloan joined the bank on May 1, 2021. He follows a path set by his grandmother, grandfather, and father in joining, and will represent the third generation of "Sloan" to join the community bank in an officer role. ■

Upon retirement, Glazner will spend his retirement helping his wife, Debbie, in volunteering at the Sherpherd's Staff Food Pantry in Harrisonville, and enjoying precious moments with his kids and four grandkids. You may even catch him around a fishing hole or a golf course when the weather is nice!

*Sherwood Community Bank is a local family-owned community bank in rural Missouri with its beginnings in 1902. Located 30 minutes south of Kansas City, our four branches serve the surrounding communities: Harrisonville, Garden City, Creighton, and Urich.*

*We're a small town bank, but we're big on YOU!*

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*If you would like more information about this topic, please call Tracy Sloan at 816-380-5783, or email shrwdbk@fairpoint.net.*

# **MRV Banks** Welcomes Brady Wright as Commercial Loan Officer

MRV Banks President and CEO Doug Watson is pleased to announce that Brady Wright has been hired as a new Commercial Loan Officer in Cape Girardeau.

Wright has worked in banking for nearly five years, serving as a Credit Analyst and Commercial Loan Officer, before joining MRV Banks.

"We're very glad that Brady has joined our team," said Robbie Guard, MRV Banks Senior Vice President and Cape Girardeau Market President. "He has a passion for helping others, is well-known throughout the community and will be a true asset to our branch there."

"I wanted to join MRV Banks because of the opportunity to join a growing community bank that is committed to expanding its presence in Cape Girardeau," said Wright.

Wright attended Southeast Missouri State University where he was a standout baseball player who took part in three OVC conference championships. Wright lives in Cape Girardeau with his dog named Ripley. His parents live in Southern Illinois. He has an older brother in the Army and a sister who is a speech pathologist in Clarksville, TN.

*Founded in 2007, MRV Banks is one of the fastest growing banks in Missouri. With more than $500 million dollars in assets, it is ranked within the top 10 percent of its national peer group which is based on Asset Growth, Net Interest Margin, Efficiency and other criteria. MRV Banks has locations in Ste. Genevieve, Cape Girardeau and Festus. MRV Banks has a reputation of delivering premium banking products and services to local consumers and small to medium sized business customers throughout Missouri. For more information about MRV Banks, go to www.mrvbanks.com or call 573-880-7444.*


We want to hear
NEWS FROM YOU
Email your stories to
Michelle Lawson at mlawson@miba.net.


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# A BACKGROUND ON ...

# DUANE KOHLSTAEDT

## How did you get started in the banking industry?

I developed an interest in banking and specifically agricultural finance way back in high school. I saw it as an opportunity to live and work in a small rural community while pursuing a rewarding career. Upon graduation from college, I worked for the Farm Credit System and immediately experienced the difficulties brought on by the Ag Crisis of the 1980s. It was a very difficult time, but it also provided a great training ground for my future in lending. After 18 years with FCS, I transitioned into community banking, and it has been my passion ever since. Now, with 20 years of experience, I am more convinced than ever that we need to work hard to preserve the community banking model. I firmly believe that the "too big to fail" institutions cannot and will not truly serve the needs of rural communities as effectively as community banks.


## Tell us about Farmers State Bank.

FSB was chartered in 1878 and subsequently reorganized in the 1930s during the Great Depression. The original home office is in Cameron, but we have continued to expand over the past 30 years and now have six branches covering Northwest Missouri. Originally, FSB was primarily an ag bank; however, in the past 20 years, the lending portfolio has expanded to include large mortgage and commercial segments. During this period, the bank has grown from $40 million in assets to over $300 million. We continue to be challenged to provide the most up-to-date products and technology to our customers while at the same time remembering our community banking roots and our commitment to reinvesting in and supporting the communities we serve.

## What is the most rewarding part of your career?

People. Customers, co-workers, community leaders, industry peers, you name it. I simply cannot describe the extent to which I value personal relationships. I will most likely never remember what was on a loan memo back in 2015, but I will remember the person who sat across from me at the closing desk. Likewise, it is rewarding to watch a young bank employee learn and develop their skill set over time and then transition into a leadership position within the bank. You just can't buy this stuff.

I will always remember a customer who had a very difficult time in the 1980s. He and I had some very hard discussions, and let's just say I was not likely to be invited over for Thanksgiving dinner. Years later, I ran into this customer. He came up to me and said, "I just have to thank you for helping me through a hard time. You told me things I did not want to hear, and I resented that. Looking back, I can see that had you not forced me to look at things differently, I would have lost everything." It doesn't get much more rewarding than that.

## How and when did you become a member of the Missouri Independent Bankers Association?

FSB has been a member of MIBA since I came to the bank in 2002. Over the years, I have read the publications, participated in the training, etc. When I transitioned to the role of CEO in 2018, I decided it was time to get more involved. I looked at different organizations but was drawn to MIBA because of its ties to community banking. I actually drove to the office in Jefferson City in 2019 just to visit and become more familiar with the organization. I have agreed to serve on the board and look forward to more involvement with legislative and organizational activities.

## What do you see as the benefits of MIBA membership?

Advocacy. Community banks need a united common voice for legislative issues, vendor access, product development, product deployment, training, etc. Our long-term survival partly depends on a cooperative approach to utilize economies of scale to compete within the industry. MIBA provides the best conduit for this cooperative approach. I would also point to the extensive and quality training library provided through MIBA. We utilize this resource every day, and it has proven to be especially useful.

## Are there any specific individuals who have had a significant impact on your career? How?

I won't name names here, but I will say that I have been extremely fortunate in my career to work for leaders (both at FCS and on the banking level) that "got it." They understood what it took to be successful in this industry, and they were willing to share that knowledge.

These individuals were effective communicators and valued the development of staff. In essence, they helped me to develop the necessary tools to grow in this industry. Without their commitment to development, I think my path would have been much different.

## If you look back at your career and life, what would be three things you've learned that you would share with someone you are mentoring?

1. Respect: Show respect to customers, co-workers, leaders, and the industry as a whole. You cannot expect to receive respect if you do not first give it.
2. Persistence: This is a tough business that requires constant attention and development. There is no "finish line," so to speak. The race continues every day, and you must commit to keep growing and learning.
3. Balance: Being a community banker means you represent the institution at all times, whether at the bank, church, a school function or whatever. It is kind of a 24/7 job in some aspects. You have to make certain you allow some "me" time and some "family" time. It is important in a lot of ways and provides that always needed recharge.

## The pandemic seems to be winding down. Do you think it permanently changed the banking industry? If so, how?

No doubt there are lasting changes. In my opinion, the most profound change was the acceleration of digital banking. Suddenly customers were using online products, bill pay, remote deposit etc. at a rapidly increasing pace. Customers that would have never before considered digital were forced into it and many have found they really like it. If we as an industry and individual banks do not recognize this and provide access to these products, I think customers will likely move away from us. That is why MIBA's ability to align vendors with this need is so crucial.

## Do you have a favorite quote? Or do you have a favorite writer or book that might benefit other bankers?

I am an avid reader, both recreationally and for the profession. I will be honest and say that I do not have a favorite. I feel that any

reading stimulates the mind and helps our critical thinking and cognitive process. Whether an industry-related article, a good novel or simply the newspaper, reading keeps us relevant, introduces new ideas and confirms long-held opinions. My recommendation is to skip golf one day a week and spend an hour reading instead. Given that I am very competitive and a really bad golfer, this practices is much better for my emotional health!

## What do you do in your spare time?

My spare time is pretty much spent on two things: 1. Anything outdoors, and 2. Anything grandkids. When not with the grandkids, I love woodworking, fishing, hunting, baseball and working on the little hobby farm. I don't think I will have a problem finding something to do after I retire! ■

# SLIPPERY SLOPE

## Another yield curve shift has community bankers guessing.

By Jim Reber

ICBA Securities

And now for something completely different. Except it's not; it just hasn't been around for a number of years. But it most assuredly has an impact on your community bank's bond portfolio and on the securities you'll be thinking about purchasing the next time you're in the market.

I'm speaking once again about the ever-popular slope of the yield curve. For our purposes, these are the yields on the various on-the-run Treasury issues, specifically those at the two-year and 10-year maturity terms. They are the most popular benchmarks for bond market analysts when the slope of the yield curve is discussed.

What is different so far this year is that the slope, or difference in yield at the benchmarks, has both grown and shrunk in a few short months. This surely doesn't look like a secular trend vis-à-vis 2017 through 2019, when the slope gradually, grindingly, flattened by more than 100 basis points (1.0%).

So, now that we've established that bond yields of differing tenors seem to have minds of their own, what does that mean to your community bank?

### More is better, usually

Most community bankers had wished for higher rates since late 2019 when the economy started to lose oil pressure. Loan demand (but not credit quality, thankfully) had already begun to deteriorate by the time "COVID-19" became part of our vocabulary. In short order, the Federal Reserve pushed short-term yields to near zero, began buying billions of bonds each month and launched a series of programs to backstop the economy. The yield curve and – not surprisingly – net interest margins flattened.

What we experienced in the first quarter of 2021 is known as a "bear steepener," which occurs when monetary policy is on hold at the same time bond investors get the shakes about inflation. With all the fiscal stimulus coursing through the economy's veins, long-term buyers demanded more protection against purchasing power erosion, and the slope of the curve jumped nearly 80 basis points by March 31. Alas, this trend proved to be short-lived.

In the second quarter, especially after the Fed's June meeting, the bond market gave back a large portion of the 2021 yield improvement. By the halfway point in the year, the curve's slope was back down by about 35 basis points. This was not welcome news for portfolio managers, who are still hustling to invest idle cash, which is probably leaving margins exposed to falling rates.

### What shape indicates

This is probably a good time to recount what the slope of the curve telegraphs about investor sentiment. If long and short rates

### Balance Sheet Academy

ICBA Securities and its exclusively endorsed broker Vining Sparks announce the 2021 Balance Sheet Academy. It will be presented in a live session Oct. 18-19 in Memphis, TN. This intermediate-level course will discuss a variety of topics, including interest rate products and portfolio modeling. Space is limited. Visit viningsparks.com to register. Up to 12 hours of CPE credit are offered.

have very little difference, it indicates investors are relatively satisfied that inflation is not a threat. Two-year buyers will almost always take their cue from the Fed, while 10-year buyers, who are quick to retreat if they sense prices are about to rise, have gradually required less risk premium over the past 30 years since inflation has stayed under wraps. (Investors of a certain age may recall the term “bond vigilantes.” Those institutional buyers would demand higher yields if the combination of monetary and fiscal policies were not to their liking. In the two decades, the bond vigilantes have gone the way of Wyatt Earp.)

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What took place in June of this year would qualify as a “bull flattener.” Longer rates retreated when the Fed, and in particular chairman Jay Powell, put the bond market more at ease regarding incipient inflation fears. The flatter curve means that longer-term investors are not rewarded as much for their additional price risk. That is relevant to community banks in 2021, since bond portfolios are as long as they have ever been, using duration as an indicator.

## Where to go from here

What’s the next move for the shape of the yield curve? I’m not going to hazard a guess, but I will point out some tidbits of interest. For one, the current slope of about 120 basis points is almost exactly the past 10 years’ average. For another, the recent yield rise for the two-year Treasury note also restored its 10-year average spread over Fed Funds.

And finally, the Fed’s June dot plot may have shown that more members are projecting the first hike earlier than in the recent past, but the consensus is still in 2023, which is a long way from here. Stay tuned for more reporting on our mountain of debt, as depicted by the thrilling slopes of the U.S. Treasury yield curve. ▪

*Jim Reber (jreber@icbasecurities.com) is president and CEO of ICBA Securities, ICBA’s institutional, fixed-income broker-dealer for community banks.*


# CECL – IT'S TIME (AGAIN)

By Michael Flaxbeard & Kevin Ives, BKD

Has it really been a year already? It's felt like 10 minutes … underwater, while being attacked by a shark as you watch the Chiefs in the 2021 Super Bowl. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. Since then, community banks throughout Missouri and nationwide have adapted to working remotely, scrambled to fund billions of dollars of loans through the Paycheck Protection Program (PPP), and modified terms on thousands of loans to help our struggling community members and address shrinking margins brought on by incredibly low-interest rates. Missouri community banks tackled these challenges while we were helping our children learn remotely, eating room temperature carry out, figuring out the mute button on Zoom calls, and just hoping our new COVID puppies wouldn't bark during weekly check-in calls. Notice I didn't even mention navigating all of this during an election year. All of that to say … WHAT. A. YEAR!

I know what you may be thinking: "We are almost on the other side of this pandemic, my employees and customers are receiving vaccinations and finally coming back to the office and branch, and this guy has the gall to bring up CECL!?" In short, yes. But hear me out. Amid all of the COVID-19 accounting confusion, the adoption date for ASC 2016-13, Financial Instruments – Credit Losses (Topic 326), did not change. Your bank must adopt Topic 326, aka the current expected credit losses methodology (CECL), on Jan. 1, 2023, as reflected in your March 31, 2023 call report filing. The pandemic has most likely sidetracked adoption and implementation plans and you may feel like you are back to square one. Given mass adoption is less than 24 months away, CECL fervor will pick up in the coming months. Before the CECL conversation goes mainstream, allow me to dispel a few CECL myths, offer insight gleaned from the more than 150 publicly traded banks that have already adopted the standard, and offer a sensible solution to consider for your CECL problem.

## Common CECL Myths

Initially, I read the CECL standard issued by FASB because I am a glutton for punishment. Recently, I re-read the standard because confusion abounds within the industry as to what is required versus what has been projected from software providers, accounting nerds, and the largest and most complex financial institutions throughout the country. While this guidance has been well-intentioned and helpful to many, I believe it may have perpetuated myths in the marketplace surrounding the CECL standard.

Before addressing these common myths, let me provide a simple CECL refresher. Simply put, CECL requires loans to be presented at the net amount of what is expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans in order to present this net carrying value of what is expected to be collected. The main difference between CECL and today's incurred loss model is the time period for estimating losses. Under the incurred loss model, one reserves for losses that are probable at the reporting date. CECL requires

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that one reserves for credit losses that are expected over the remaining life. Below are common myths related to CECL followed by reality-based responses.

### Quantitative & Qualitative Factors Within Your CECL Estimate

**Myth:** Quantitative information is required to support qualitative assumptions, such as current condition adjustments and forecast estimates.

**Reality:** Topic 326 does not require quantitative assessments to support current condition adjustments or forecast adjustments, which are qualitative assumptions, much like qualitative loss factors today. Topic 326 requires estimating expected credit losses over the contractual term of loans adjusted for prepayments. Historical credit loss experience of loans with similar risk characteristics, i.e., loan pools, generally provides a basis for an entity's assessment of expected credit losses. An entity shall consider adjustments to historical loss information to reflect changes in current conditions and reasonable and supportable forecasts. These adjustments may be qualitative in nature. In plain English, the CECL gods are saying that one starts with historical loss information and adjusts for factors today and factors in the future. These factors are called the "current condition adjustment" and "forecasted loss adjustments." Nowhere within Topic 326 does it state current condition and forecast adjustments need to be quantitatively derived from complex statistical models, such as regression, that predict future losses based on historic relationships of loss to changes in economic indicators such as unemployment, commodity prices, interest rate movement, etc. There is no prescriptive method outlined in Topic 326 related to current condition forecast adjustments. The development of these critical assumptions can be performed in a variety of ways, including top-level qualitative adjustments. With that being said, documentation of how qualitative assumptions were chosen, derived, and consistently applied is critical to a successful adoption.

### Peer Loss Information & the Historical Loss Window

**Myth:** The use of peer losses is required when developing historical loss analyses.

**Reality:** Topic 326 states historical loss information can be sourced from internal, external, or a combination of both when developing historical loss analyses. Nowhere in the topic does it state that external information, i.e., peer loss data, is required.

**Myth:** An institution needs many years of historical loss information to adequately estimate future credit losses.

**Reality:** Topic 326 does not state historical loss information is required for a full economic cycle, or many years. Instead, it only states that management may use a historical period that represents management's expectations for future credit losses. If management believes losses from 2010 are not representative of losses in 2024, that information should not be used. However, there may be benefit in using a long-term historical loss average to supplement periods outside of a bank's forecast period, which is typically one to two years. Having more loss information at your disposal helps support reserves without heavy reliance on qualitative loss factors.

### Software Applications

**Myth:** Financial institutions should purchase software that will assist in estimating credit losses in order to comply with the standard.

**Reality:** The CECL standard does not require the use of software when developing the estimate of credit losses. It does not require specific approaches when developing the estimate of expected credit losses. Instead, it explicitly states adopters should use judgment to develop estimation techniques that are applied consistently over time and should faithfully estimate the collectability of loans. Admittedly, a little direction would be nice. While many early adopters found software beneficial, specifically through process automation, the standard does not require its use.

**Myth:** If my financial institution purchases software to assist in the CECL calculation, management can simply reply on its outputs.

**Reality:** This myth has been a challenge to overcome. While software applications can be powerful, helpful tools, management must be able to document their understanding of conceptual design and assess the reasonableness and appropriateness of assumptions and the resulting allowance estimate. A software application in and of itself cannot tackle the CECL standard given its subjectivity.

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**Myth:** Financial institutions with more than $1B in total assets are no longer “smaller and less complex.”

**Reality:** The term “smaller and less complex” has been popularized through interagency guidance on CECL, risk management, and compliance. The agencies have yet to define what exactly is “smaller and less complex.” Until then, this classification remains subjective and based on more than an arbitrary asset size.

## CECL Insights & Lessons Learned

Approximately 150 financial institutions adopted CECL as of Jan. 1, 2020. These early adopters are concentrated to publicly traded institutions. Of the approximately 240 banks in the state of Missouri, only a handful were early adopters. Further, of the 240 banks in the state of Missouri, 213 are under $1B in total assets and 178 are under $500M in total assets as of Dec. 31, 2020. Expectations for the vast majority of banks in the state of Missouri will not be the same as those banks that adopted CECL as of Jan. 1, 2020. However, there are some universal lessons learned that should be contemplated by banks of any asset size.

## Acquisitions Were a Significant Driver in Increased Reserves

Looking at the 10 CECL adopters less than $50B in assets as of March 31, 2020, with the most significant increases in reserves as a percentage of loans, all but one had an acquisition in 2018 or 2019. This increase in reserves upon adoption was expected as accounting for credit losses on acquired loans has materially changed as part of the CECL standard. Historically, purchased loans fell under separate guidance that didn’t allow for the recognition of an allowance at acquisition. Under the CECL standard, an allowance for credit losses is to be recorded on purchased loans, regardless of the purchase accounting discount on those loans. For more information on accounting for purchased loans under the CECL standard, see this archived BKD webinar on the topic ( https://www.bkd.com/webinar/2018/12/cecl-business-combinations). If your institution is anticipating an acquisition in the coming years or expects to have a large amount of acquired loans at the date of the adoption, reach out to a BKD Trusted Advisor™ to review the day-one accounting implications of CECL adoption.

## Unfunded Commitments Had a Significant Effect at Adoption

Another effect of adopting the CECL standard was an overall increase in the allowance for unfunded commitments. With the adoption of CECL, increases in unfunded commitments were expected. Of the early adopters with less than $50B in total assets, 21% experienced a more significant effect from unfunded commitments at adoption compared to loans outstanding. Further, nearly half these adopters indicated 20% or more of the total CECL allowance increase derived from reserves on unfunded commitments. This impact is due to the fact that many institutions did not previously record an allowance on unfunded commitments. CECL defines an approach and requires adopters to record an allowance for unfunded commitments that are not unconditionally cancelable.

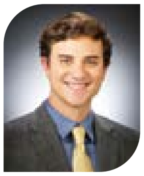
## Forecast Periods Were Generally One or Two Years

CECL requires “reasonable and supportable forecasts” when determining expected credit losses. “Reasonable and supportable forecasts” make the standard forward-looking, can be viewed as the biggest change within the standard, and are the most significant assumptions when estimating future credit losses. We reviewed public filings for 116 CECL adopters with less than $50B in total assets and noted 68 used either one (39 adopters) or two years (29 adopters). Twenty-three adopters did not disclose the forecast period. CECL does not require an entity to create an economic forecast over the contractual life of loans. Rather, for periods beyond which the entity is able to make reasonable and supportable forecasts, reversion to historical loss information is required.

## A Practical Solution

I completely get it. Planning, preparing, and researching for your upcoming CECL adoption is the last thing you want to do right now. Most of you reading these words represent true community banking and feel like this standard was not intended for the size and complexity of your institution. You may not receive a financial statement audit and answer solely to state regulators and the FDIC or OCC. While the market is ripe with powerful software applications, you question if the cost and complexity of those solutions is commensurate with the risk at your institution and what is truly required. To this end, you are frustrated with the academic articles pontificating on one of the most confusing and subjective accounting standards ever written by our friends at FASB.

I have always been taught to never address a problem without offering a related solution—and I believe BKD has done just that. Our team has developed CECL simplified. Our solution is geared toward community banks and delivers the rare one-two consulting punch: an understandable CECL tool coupled with a BKD Trusted Advisor who assists with the development and documentation of your unique CECL calculation. Our aim is not to be just another software application. Instead, our goal is to work with management to develop a CECL calculation that is easy to use and easier to understand and comes with a BKD Trusted Advisor™ in tow. With our help, you can be “CECLing” independently (and accurately) after initial adoption. Lately, as it relates to CECL, I have felt that I have been shouting into the empty void where practicality and sensibility used to reside. Help me fill this void. ■



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# HOW MUCH OF YOUR BUDGET SHOULD YOU SPEND ON I.T.?

By Thomas H. Douglas, JMARK

No one wants to overspend on anything, especially IT. In fact, one of the first questions most organizations ask when they begin working with us is how much they should be spending on IT. Frustratingly, the simple answer is, "It depends."

We typically see organizations spend between 2.5% and 6.5% of their operating budget on IT. While this may not seem like a wide range, when you consider that most SMBs operate at less than 10% EBITDA, every dollar spent has to count.

So how do you know if your organization is spending the right amount? Below are some examples to help put those numbers in context.

## First, Let's Talk About Underspending

Underspending on IT is just as big a problem (if not bigger) than overspending. When an organization underspends, you can count on two things happening:

1. Risk goes up. The type and depth of that risk depend on how and where the spend is made. We often see a shortfall in three areas: security, business continuity and user productivity. Very few small businesses have the necessary tools and training in place to protect their business properly. They are usually shocked to find out their backups are not solid, take days to recover, or are not structured in a way to protect against all the likely scenarios that could occur in today's world.

2. It is common for organizations to mistakenly assume that their security spend is sufficient because they have anti-virus software and a firewall. Unfortunately, most businesses cannot survive a complete loss of data due to a disaster or security issue where the data cannot be recovered. Conversely, when organizations understand why and in which areas IT funds should be spent, the investments decrease risk and support growth.

3. Morale goes down. Production in any organization is performed and facilitated by people. Good people want to be able to do good work. When they have poor or underperforming IT, your best talent will consider other organizations to produce the value they desire to create.

4. Businesses often try to prolong the life of computers and systems, thinking they are saving money when they are actually lowering production and increasing frustration, leading people to find excuses not to work because working on outdated equipment is more frustrating than rewarding. In contrast, when an environment is designed to ensure users can do their work without concern for the "system" being a hindrance, everything shifts.

## Gaining Perspective

IT costs in the 2.5% – 6.5% range typically cover the following:

- Server infrastructure
- Network infrastructure, including LAN (local area network) and WAN (wide-area network)
- Software
- Workstations
- Power management
- Security
- Vulnerability management
- IT compliance
- Business continuity, disaster recovery and backup
- IT management, both internal and outsourced

IT costs do not typically cover training or phone systems.

The more regulated and complex a business, the higher the IT percentage. For example, most financial institutions in the SMB space (i.e., banks with sub-$1B in assets under management) will be in the 5% range. The more locations, the higher the costs.

Also, the larger the organization, the higher the costs. A false assumption is that there is an efficiency of scale to be gained as you grow, so the cost per user or percent of the budget will go down. For the most part, this is simply not true. Why? Because the larger your organization, the higher the number of applications necessary for it to function. Sometimes it is not an increase in the number of applications but their complexity, resulting in the same outcome. For sure, there are times in the lifecycle of a business where, as an example, you can go from 4% to 3% because you've gained some efficiency. However, as the business grows, investments in new technology will occur.

As revenue goes up year over year, the operating budget percentage reduces over time. However, the IT spend as a percentage of the operating budget adjusts as IT investments are required. The goal is that those investments drive organizational efficiencies, which improves the overall operating budget and bottom-line performance.

## Can I Save Money with software as a service (SaaS)?

Many organizations assume that because they move to "the cloud," their costs will go down. By and large, this is not true. The infrastructure required to run a SaaS application or a data center to provide 99.999% uptime is very costly to operate, manage, backup, and plan for lifecycle. Most organizations rely on the provider to facilitate a much better outcome than they could build themselves, which comes with a cost.

## Next Steps

While the circumstances and needs of your business may vary from the examples above, having a general idea of how much is appropriate to spend on IT and why is key to setting up your business for success. ▪

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*If you would like to know more about setting the right technology budget for your organization, including how to plan for upgrades and equipment refreshes, contact Mr. Douglas at tom@jmark.com.*

MIBA Missouri Independent Bankers Association

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# THE PRESIDENTIAL EXECUTIVE ORDER ON CYBERSECURITY AND YOUR BUSINESS

By Mike Gilmore, RESULTS Technology

## Introduction

The Cyber Threat Landscape is increasingly prominent in the news, represented by the major security breaches of SolarWinds and Colonial Gas. In recent years, the United States federal government has passed several bills relating to Cybersecurity. One of the most comprehensive actions was recently established in an executive order signed by President Biden May 12, 2021: "Executive Order on Improving the Nation's Cybersecurity." (To view this order in its entirety, please go to: https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/12/executive-order-on-improving-the-nations-cybersecurity/.)

This executive order is primarily intended to address security in the federal government. Still, these requirements will quickly push out to any private sector business that works directly or indirectly with the government or falls under any form of federal regulation. Cybersecurity insurance providers already require the implementation of some of these new standards.

Even now, banks are closely monitored for IT security and are required to have stringent controls in place. There is little in the new executive order that is not present in the newest InTREx examination program for Information Technology. But small community banks can no longer expect to get a pass from having sophisticated tools in place to meet these standards.

It has become more critical than ever to know what is happening on your network and be able to react quickly if a malicious activity occurs.

Here are some important features of the 34-page order.

## The Key Takeaways

1. **Easier Access to Intel:** In the past, there have been some substantial barriers between sharing information and data with the federal government and the private sector, namely the Cybersecurity vendors. Because of this, many threat vectors that could have been mitigated were not. But with this new legislation, all barriers are intended to be removed, so there will be a free and smooth flow for information/data exchanges. In fact, Cybersecurity vendors are now required to inform the government if the agencies for whom they are doing contract work could be at risk of an impending threat.

2. **A More Proactive Mindset:** The federal government has been known to use outdated technology, most notably that of the Internal Revenue Service. Upon the enaction of this Executive Order, this should soon start to change, as agencies and their related entities will now be required to completely upgrade their IT and network infrastructures.

3. **Adopting the Zero Trust Framework** (requiring active authentication at all times):

   - Implementing Multi-factor Authentication (MFA) across all levels of government when access to confidential information and data needs to be accessed; and
   - A total migration to a 100% cloud-based infrastructure, using a platform such as AWS or Microsoft Azure.

4. **Supply Chain Security Risk Will Be Addressed:** This has been primarily fueled by the recent SolarWinds security breach. (For details, please visit: https://www.channele2e.com/technology/security/solarwinds-orion-breach-hacking-incident-timeline-and-updated-details/.) This has been classified as a "Supply Chain Attack" in the sense that the cyber attacker group used just a few tools from SolarWinds to spread their malicious payload to the hundreds of customers dependent on its use. A big chunk of these victims also included significant federal government departments, including some areas in the Department of Defense (DoD). As a result, this new Executive Order now mandates that any software product used in contractual work for any federal agency must adhere to a much

stricter set of security requirements, in addition to the accessing and processing of shared resources (such as that of data sets).

5. **Establishment of Greater Oversight:** In this regard, a National Cybersecurity Safety Review Board will be established, made up of individuals from both the public and private sectors. The intention is to have the ability to investigate major security breaches, and it is expected to function much like the National Transportation Safety Board (NTSB).

6. **Establishment of a National Cyber Playbook:** The use of playbooks is quite common with many Cybersecurity vendors and their clients. A playbook models the various threat vectors, the possible consequences of their impact and creates a set of rules and procedures to mitigate the risk of them impacting your business. But with this new executive order, one of the primary goals is to establish a national Cyber Playbook framework. Any public or private entity can modify, adopt and use for its security environment.

7. **A Quicker Response to Detection/Response and Investigation/Remediation:** In this regard, the emphasis is on endpoint security. For the longest time, both public and private enterprises were much more concerned about protecting network communications lines. Not much attention was paid to the points of origination and destination of these flows. As a result, cyber attackers took complete advantage and looked at these endpoints to deploy their malicious payloads and move laterally. There will now be much greater emphasis placed on this by the federal government requiring businesses to adopt and implement newer security technologies.

The newly signed executive order requires federal agencies and departments to "up their game" in keeping up with technology, applying strong security standards and policy controls, and most of all, knowing what activity is happening on their networks. Fortunately, even small businesses can access enterprise-level tools to manage, report and react to cyber threats.

Overall, the new broad executive order is a significant first step, but the critical question remains how quickly these measures will be implemented. Brandon Wales, acting director of the Cybersecurity and Infrastructure Agency, put it best when he said, "It won't be easy, smooth or cheap, but the cost of not doing anything is simply too high."

There is no time to lose as threat variants become more sophisticated each and every day. Learn more about our cybersecurity services (https://www.resultstechnology.com/industries/community-bank/cybersecurity-and-network-security/) and how we help organizations implement best practices and cybersecurity frameworks. ▪

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*Mike Gilmore is the Chief Compliance Officer of RESULTS Technology and a Certified Information Systems Auditor (CISA) with more than 30 years of experience in the banking industry. RESULTS Technology provides IT services to community banks across the Midwest. As CCO, Mike provides compliance and risk assessments, audit and exam support, and policy documentation. He can be reached at info@resultstechnology.com.*

# WHY BANKS MUST HAVE A CYBERSECURITY STRATEGY

By Greg Morse, Stronghold Data

Businesses within the financial industry are among the safest and most secure companies in the world. They must be because they house and protect their clients' most valuable assets. While physical bank robberies continue to decline, the financial industry has become the #1 target for cybercrimes. Criminals would rather use ransomware instead of a weapon, and for good reason. According to Forbes, half of all businesses will pay a ransom, with the average cost being nearly $112,000. That does not include financial and business losses from a ransomware or cyberattack downtime, which lasts about two weeks on average. For most banks and financial institutions, cybersecurity is already top of mind, and in reality, cybersecurity is critical.

Here are three things a bank should ask when it comes to cybersecurity:

## What do hackers want?

It may seem obvious that money is what most hackers want, but money is not the only thing hackers are after when targeting banks. As Flagstar Bank, a financial institution from Michigan learned, hackers also want data. When a ransomware attack hit Flagstar in Jan. 2021, the hackers stole Social Security numbers, names, and addresses of both employees and clients.

Banks sit on a treasure trove of client data, and bad actors know this. Unsurprisingly, the U.S. Securities and Exchange Commission issued a Ransomware Alert in July 2020 warning of the increased sophistication of ransomware attacks on SEC registrations. Protecting clients' data should be a top priority of a bank because, for hackers, their top priority is to steal it.

## What are the concerns after a compromise?

### *Reputation Damage*

When data does get compromised, there are several concerns banks need to keep in mind. The first is reputation. Clients trust banks to keep their assets and data safe. When a breach happens and is made public, it damages that trust. Missouri law mandates that in most cases, businesses must notify individuals if their data has been breached. Few things are as embarrassing to a company as telling customers that their data was stolen. Discretion is always desired in a compromise, but knowledge of the attack will almost always become public, usually because the hackers will post the information on the internet.

### *Government Fines*

The second concern banks should be aware of after a breach are potential fines. In recent years, the Federal Trade Commission has heavily penalized financial institutions that allowed a breach to happen because they lacked proper cybersecurity protection. The most notable example of this was when Equifax paid an estimated $575 million as part of a settlement for their 2017 breach. Compounding the costs of the breach itself with potential fines and reputation damage can be devastating for any business, especially banks.

### *Cybersecurity Insurance*

The final concern should be cybersecurity insurance, and every bank should have a cybersecurity insurance policy. These policies are crucial in the event of a breach. But many insurers are increasing the requirements that companies and organizations have for coverage. These requirements are typically based on having a certain level of security and protections in place to prevent a breach. Every bank should check their cyber insurance policy to ensure they have proper coverage and are meeting security requirements under the policy, so they are not left in the dark in the event of a compromise.

## Where do cyber threats come from?

Banks also need to understand where threats are coming from so that they can adequately guard against them. Despite hacker stereotypes, most data breaches come from internal threats and human error. An employee might click a bad link in a phishing scam or accidentally download sensitive data. Hackers love to target employees by using tricks and information they know will fool someone into clicking a link or providing login credentials. This process is called social engineering. Hackers can learn a lot about someone, usually from the data they have stolen from someone else, and use that information to make highly personalized messages that seem genuine. All it takes is a smart and timely actor to send an email that mimics a business partner at the height of a very important transaction to trick someone into wiring funds to the wrong account.

Another major source of breaches is third-party vendors. Almost every bank uses third-party vendors, like most organizations. But also, like most organizations, banks do not always keep track of their third-party vendors and the level of access they have; a recent study by SecureLink found that 51% of organizations have experienced a breach by a third party.

It is not only a lack of vendor vetting causing that number to be so high, but also because many companies, banks included, make the mistake of trusting vendors based solely on reputation or signed contracts. A legal contract does not necessarily mean the vendor is safe and secure. Furthermore, it does not always protect against liability in the event of a breach. Why is that important? New legislation is increasingly putting the responsibility on the company or organization that was breached, not the third-party vendor who caused the breach. Knowing who has access to your data and the level of security those vendors have is vital to keeping a bank secure.

## Keeping Your Bank Cyber Secure

How does a bank keep itself and its clients protected from ongoing and increasing cyber threats? Several simple steps can be taken, such as:

- Regularly changing passwords
- Having a Cyber Incident Response Process and Policy
- Employees trained on current security threats and best-practices
- Process for vetting security of vendors

But the most critical step is not to try and build a cybersecurity strategy alone. Having a Managed IT Services Provider should be a bank's top investment. An MSP can provide 24-hour comprehensive IT support and services and provide the peace of mind that banks need. A dedicated MSP can help build a proper cybersecurity strategy, manage threats, and assess weaknesses and vulnerabilities so a bank can focus on what is most important: serving its clients. ▪

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*Greg Morse is the Marketing Coordinator of Stronghold Data, a 2021 ChannelFutures 501 and CRN 500 Managed Services Provider, located in Joplin, MO. Stronghold Data, a New Charter Technologies Company, specializes in managed IT services, data security and backup, and private cloud management. For more information, visit Strongholddata.com or call 417-427-7905 to speak with a representative today. Scan the QR code below to download a complimentary Cybersecurity Self-Assessment.*

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THE CALLAWAY BANK – **ASHLYN JARMAN**
ALLIANT BANK – **NATASHA JENKINS***

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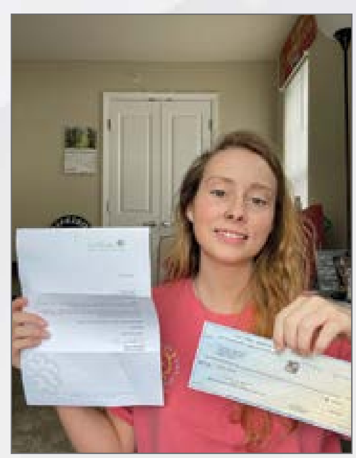

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ROYAL BANKS OF MISSOURI – **RACHEL DELGADO***

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# DATES AND EVENTS

MIBA

## AUGUST

**WEDNESDAY, AUG 4, 2021** *10 a.m. - 11:30 a.m.*
The TRID Dirty Dozen: Navigating the Landmines

**WEDNESDAY, AUG 4, 2021** *2 p.m. - 3:30 p.m.*
New Accounts Series: Regulatory Alphabet for Deposit Accounts

**THURSDAY, AUG 5, 2021** *2 p.m. - 3:30 p.m.*
Comparing Regulation E with Visa & MasterCard Rules

**FRIDAY, AUG 6, 2021** *10 a.m. - 11:30 a.m.*
Construction Loans: Cost Overruns, Delays & Occasional Disasters

**MONDAY, AUG 9, 2021** *2 p.m. - 3:30 p.m.*
New ACH Meaningful Modernization Rules Effective September 17, 2021

**TUESDAY, AUG 10, 2021** *2 p.m. - 3:30 p.m.*
Credit Analyst Series: Debt Service Coverage Calculations in Underwriting

**WEDNESDAY, AUG 11, 2021** *2 p.m. - 3:30 p.m.*
Handling POAs & Living Trust Documents on Deposit Accounts & Loans

**THURSDAY, AUG 12, 2021** *2 p.m. - 3:30 p.m.*
Record Retention: What to Keep and Why!

**MONDAY, AUG 16, 2021** *2 p.m. - 3:30 p.m.*
New Mortgage Servicing Rule Changes Effective August 31, 2021

**TUESDAY, AUG 17, 2021** *2 p.m. - 3:30 p.m.*
Maximizing Cyber Security Soundness & Minimizing Incidents

**WEDNESDAY, AUG 18, 2021** *10 a.m. - 11:30 a.m.*
Critical CIP & CDD Issues: Compliance, Beneficial Ownership & FAQs

**THURSDAY, AUG 19, 2021** *2 p.m. - 3:30 p.m.*
Improving Call Report Efficiency: Documentation, Accuracy & Common Errors

**MONDAY, AUG 23, 2021** *2 p.m. - 3:30 p.m.*
Credit Risk Management First Aid Kit

**TUESDAY, AUG 24, 2021** *2 p.m. - 3:30 p.m.*
Job-Specific BSA Series: Job-Specific BSA Training for the Frontline

**WEDNESDAY, AUG 25, 2021** *2 p.m. - 3:30 p.m.*
Dealing with Difficult Customers: Five Foolproof Techniques

**THURSDAY, AUG 26, 2021** *2 p.m. - 3:30 p.m.*
Survey Says! The Top 10 Reasons Businesses Move Their Accounts

**TUESDAY, AUG 31, 2021** *2 p.m. - 3:30 p.m.*
Loan Underwriting 101: Interviewing, Credit Reports, Debt Ratios & Regulation B

## SEPTEMBER-OCTOBER

**SEPTEMBER 13-15, 2021**
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**SEPTEMBER 15-16, 2021**
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Lake Ozark, MO

**SEPTEMBER 23, 2021**
Essentials in Banking: Part II
Jefferson City, MO

**SEPTEMBER 29-OCTOBER 1, 2021**
Annual Security Conference
Jefferson City, MO

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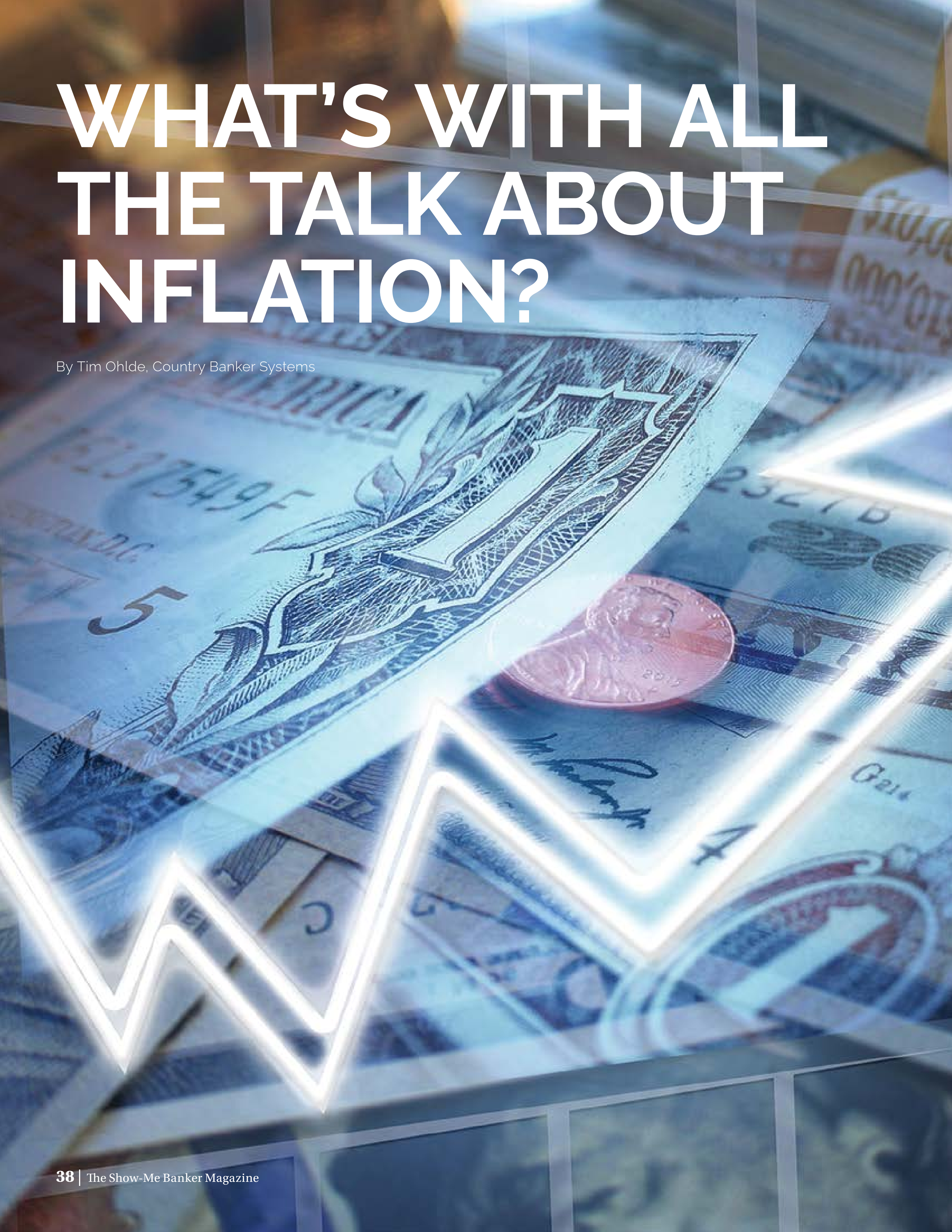

# WHAT'S WITH ALL THE TALK ABOUT INFLATION?

By Tim Ohlde, Country Banker Systems


This past month, discussions about inflation have been commonplace. People are offering opinions on what lies ahead, and the topic seems to be everywhere in the headlines.

Historical context is critical to understanding the current situation. Dropping back about 18 months, global economic issues included advanced countries having the most debt ever recorded in modern history, aging populations (one of several key demographic shifts), and the slowing of the European Union economy. The EU was hit hard due to the deceleration of their manufacturing giant, Germany. Manufacturing suffered because China slowed purchases of imports. In the United States, there exists an amazingly high amount of government debt, consumer debt, and business/corporate debt. Business debt was the highest on record a little over a year ago, 60% of which would be junk bond status if we had an economic disruption. (Junk bond is an ugly but apt name.)

Another concern has arisen due to the monetization of government debt taking place in advanced economies. The debate on this topic occupied world economists in 2019, and the Planet Money podcast on this topic is worth a listen. It provides a quick, easy-to-understand introduction and can be found on NPR.org under Modern Monetary Theory (Classic).

As these unique circumstances were aligning 18 months ago, the world didn't even realize the onset of the Covid-19 Pandemic would be added to the list of issues very shortly. All these disparate happenings combined into a unique and challenging economic circumstance.

Fast-forwarding to today, the stock market, by all traditional standards of measurement, is very high. World debt has accelerated further as various countries implemented stimulus plans to push a return to "normal" after rolling shutdowns. And finally, we have increased prices, or in other words, inflation.

There are ongoing debates about inflation between intelligent people on both sides. Some are convinced inflation is here to stay for as far as the eye can see. This position assumes it will take increasing interest rates to tame the beast. Those in this camp criticize the Federal Reserve for standing pat, stating rates will not increase until 2023. The Fed has very quietly made a significant policy change: they will wait until inflation "averages 2% or greater" before raising interest rates. (Increasing interest rates tends to cool or slow down economic activity and decrease demand for products and services, thus taming and reducing inflation.)

On the other side, some draw on history from the inflationary 1970s, a much different period where other factors drove inflation. From 1970 to the early 1980s, there was generally higher gross domestic product (GDP) growth than experienced before the pandemic. In fact, there was very low GDP growth up until the pandemic started. The 1970s were a time of economic expansion coupled with higher energy and labor costs, which fueled inflation to the point that the Volcker era of the Federal Reserve increased the overnight fed rate to north of 20%. Their goal was to bring inflation – which was over 10% at that point – under control. Keep in mind, the Fed had a different monetary approach to interest rates and money supply at that time, but the critical point is that inflation occurred as part of a growing economy.

*Continued on page 40*

The debate can meander to the concept of stagflation. Stagflation is defined as persistently high inflation combined with high unemployment and sluggish demand in the economy. Based on the experience in the 1970s, this is economically painful.

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Today, we have increased prices (inflation). But these increased prices are due to "re-starting" economies, not a huge demand growth economy, which is a much different scenario. What if the Federal Reserve chairman is right and this is a temporary situation?

The debate can meander to the concept of stagflation. Stagflation is defined as persistently high inflation combined with high unemployment and sluggish demand in the economy. Based on the experience in the 1970s, this is economically painful. Today, we are experiencing inflation and unemployment (arguable higher when measured by U-6 unemployment numbers), coupled with diminished workforce participation. That counts as two of three markers for stagflation (inflation, a sluggish economy) compared to pre-pandemic numbers. Could increasing interest rates result in stagflation or a hybrid-type of stagflation?

There are strong arguments on both sides. Because there is no clear-cut path and the Federal Reserve has adopted a new policy approach, it behooves banks and businesses to position themselves to perform their best in either environment. ▪

*Tim Ohlde is the CEO of Country Banker Systems. Country Banker is a loan analysis software program designed by bankers for bankers to use intuitively and efficiently. Ohlde is also CEO of Elk State Bank. Both companies are based in Clyde, Kansas.*



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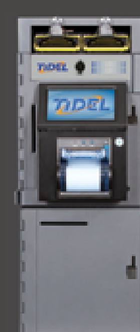

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