The Show-Me Banker

AUGUST 2022

THE VOICE FOR MISSOURI'S INDEPENDENT BANKERS

45TH ANNUAL CONVENTION & EXPO

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THE SHOW-ME Banker

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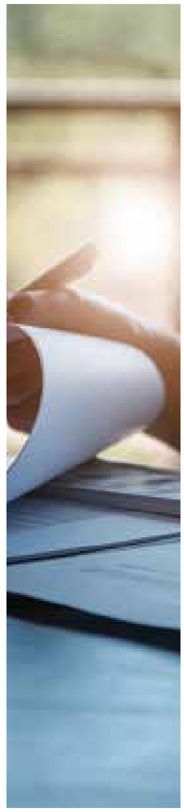
INSIDE THIS ISSUE



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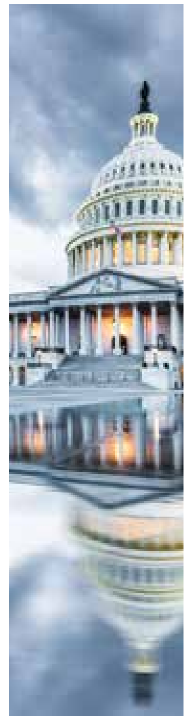
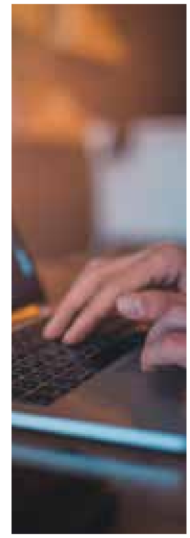


08

22



26

02. President's Message

04. From the Top

06. Flourish

07. MIBA Lobbying

08. A View From the Capitol

09. 2022 Scholarship Auction Winners

10. Meet Your Missouri Banker

12. A Background on Mitch Baden

16. MIBA 2022 Annual Convention & Expo

17. MIBA 45th Annual Golf Tournament

18. 45th Annual MIBA Convention & Expo

19. MIBA Endorsed Vendor Bankers Security

20. 2022 MIBA PAC Honor Roll

22. Why Hackers Want Your Computer

24. The Battle for Deposits is Heating Up: Are you Ready?

26. Diving into Digital Currency: What You Need to Know About Crypto

29. Dates and Events

30. Up with Coupons Larger interest payments can build a floor under your bond prices

32. New Associate Member

Jack Hopkins

Community Bank of Raymore

PRESIDENT'S MESSAGE

Management, Operations & Pre-Convention

Management

A good manager ensures his team members understand the goals they are trying to achieve and then lets the team members work together to accomplish the goals. The manager does not just walk away, though. If you were in the Army, you might remember the saying, "Inspect what you expect." A manager needs to ensure the steps to accomplish the goals are being taken and take corrective action if needed.

Another comment stolen from the Army is that your battle group is as strong as your NCO core. In bank terms, your bank is as strong as your supervisors and managers. Notice I did not mention "senior" managers, although that does help.

Operations

Operations are not something you wake up in the morning thinking about. We all take it for granted that everything will work well. If we fail in operations, we will not be in business for very long.

The daily functions in operations of a bank have changed little in my 40+ years in banking, but how we perform those functions has changed dramatically. We no longer have dozens of people working in "bookkeeping." We do not have people working in "proof and transit." Most of those functions are done electronically today.

We still have return items and overdrafts. They are just now managed using a computer.

Debit cards are a newcomer in the operations area. Fraud related to debit card activity and checking accounts now soaks up about one-third of our staff's attention in operations.

Ideally, we will continue refining our bank's "operations" area to reflect how our clients want to interact with us. Unbelievably, this would not have been a discussion topic in banks not too long ago. With fintechs now going after our clients, we must think about how our clients want to interact with us, or we will become extinct.

With labor costs rising quickly and availability questionable, automation is becoming more critical as we look at how we provide services. Many of us struggle with this as community bankers. We have prided ourselves on providing "personal" service. In general terms, do you think the younger generations are looking for something different than those of us older folks who value "relationship banking"?

Looking backward, we have all made tremendous strides to improve productivity and provide more user-friendly experiences. Our bank has grown by more than $300 million (244%) organically in the last dozen years without adding any staff. This has been possible by using online account opening, mobile deposit, remote deposit, teller capture, teller recyclers, automating some of the account opening processes, etc. The only area where we have added staff is in our trust department.

"Looking backward, we have all made tremendous strides to improve productivity and provide more user-friendly experiences."

Pre-Convention

Our annual convention is rapidly approaching. Please consider attending and consider sending some of your younger associates.

Meeting bankers across our state and discussing their challenges and successes is a motivating experience. The convention also gives all of us a chance to see many vendors in one place. Unless you explore what is available to us, you will not know if there is a product or service available that will make your bank more profitable. ▪

Brad Bolton

Chairman of the ICBA

@bradmbolton

"Working through any difficulty or crisis at your community bank won't be a walk in the park, but it may lead to an experience for which you're truly grateful."

FROM THE TOP

As a community banker, you're either going through a crisis or preparing for one. In the late 1990s and early 2000s, our bank faced a significant challenge around loan quality. It stemmed from two major factors: first, getting too lax in our underwriting, and second making too many concessions to build business.

I was young in my career when this took place, but being part of that experience set the stage for how I lead today. It's like throwing a rock into a pond when dealing with credit quality issues: The ripple effects are real, leading to issues in all areas of CAMELS (capital adequacy, asset quality, management, earnings, liquidity and sensitivity). And today, CAMELS are a main area of focus for our bank.

In addition, weathering this storm exposed the importance of procedures. We brought in a consultant to help us enhance our loan policies, which are still in use today. In fact, we now manage our loan decisions by asking, "What would an independent third party do if they selected this file and tried to understand the decision?" and documenting accordingly. That mindset forces us to think through every decision critically.

How we work with regulators also was firmly shaped by this experience. Building trust with examiners became so important that when I was promoted to senior lending officer in 2005, I made it my mission that they wouldn't uncover a problem I had not already identified. When examiners came in, I told them upfront what the issues may be and how I was managing them. Over the years, that transparency has led to mutual trust and respect.

Working through any difficulty or crisis at your community bank won't be a walk in the park, but it may lead to an experience for which you're truly grateful. In my case, we came out stronger, and when the 2008 crisis came along, we got through unscathed because we had already buttoned up our loan operations.

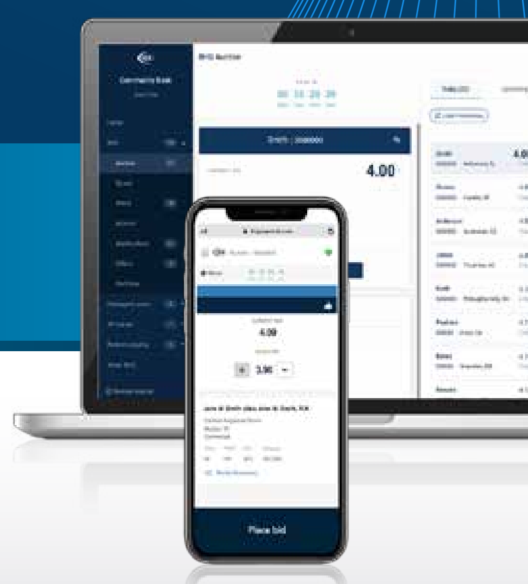
So, as you read this month's lending issue, I encourage you to consider what steps you can take to be stronger and better. Could you work more closely with your examiners, keeping your relationship manager informed of changes in the portfolio, even between examinations? Could you tighten up on business expansion? Is there education or training at ICBA Community Banker University that can help? Asking these questions may be hard, but I can attest to the fact that the answers will lead you to create an even better version of your community bank. ▪

My Top 3

Tips for a strong loan portfolio

1. Know your limitations in terms of expertise — and pass on loans that don't fit.
2. Adhere to the "5 Cs of underwriting" (credit, capacity, character, collateral, conditions).
3. Manage loan portfolio relationships proactively after the loan is funded.

Connect with Brad at @BradMBolton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Place bid

Rebeca Romero Rainey

ICBA President & CEO

@romerorainey

"Loan providers are multiplying, and we cannot underestimate the need for a frictionless loan, one that removes hoops for our customers and feels simple, efficient and effective."

FLOURISH

As we kick off this year's lending issue, I want to pause for a moment to reflect on just how much lending has changed. Remember not that long ago when a loan card was handwritten on a one-page form? You would just rip off the top sheet, fill out the terms and provide a description of the collateral. From there, the loan assistant would key it in and produce loan documents. That was it. That was the process.

Fast forward to where we are today, and you almost can't believe it's the same product line. The pendulum has swung from a simple solution to the point of extreme detail and complexity. While it has had some benefits, like stronger risk management for our banks, it has made the customer process much more daunting. In fact, the loan process has grown more complicated in lockstep with today's financial landscape.

But community banks have adapted to address that shift. Over the past couple of years, we have drawn on technology to complement the human touch with digital efficiency and have been using behind-the-scenes automation more consciously to streamline the process. By implementing these new strategies, we have focused on what matters most: our customers.

Take, for example, how the Paycheck Protection Program (PPP) affected our infrastructure. The forced urgency behind that program lit a fire under us to implement new solutions quickly and efficiently because our small business customers needed them. In fact, for many bankers, PPP compelled action around technologies they had been considering for years: everything from e-signatures to digital document processing and beyond.

That experience left me questioning what we could be doing now to anticipate what will come next. As we think about our ability to leverage technology, what is the low-hanging fruit? What new solutions can we stop kicking down the road?

It's smart business strategy to turn inward and ask the tough questions, particularly as we're up against such a competitive landscape. Loan providers are multiplying, and we cannot underestimate the need for a frictionless loan, one that removes hoops for our customers and feels simple, efficient and effective.

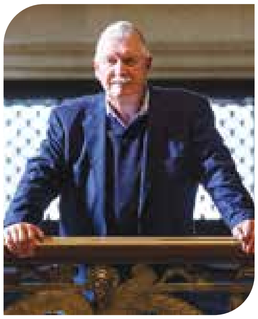
Today's lending environment is markedly different from a decade ago, but we have weathered bouts of economic volatility, inflation and restrictive regulations in the past, and we have flourished despite them. So, while this next round of uncertainty will bring with it new challenges, the strength of the community bank business model remains intact. We, as community bankers, will continue to adapt to meet our customers' needs. ▪

Where I'll be this month

I'll be attending the 2022 Idaho, Nevada, Oregon and Washington Bankers Associations' Annual Convention in Coeur d'Alene, Idaho, and meeting with ICBA's board of directors.

Connect with Rebeca @romerorainey.

MIBA LOBBYING
REPORT



Andy Arnold

Arnold & Associates

With summer and campaign season in full swing, Matt and I are busy researching candidates for the Missouri House and Senate seats. The MIBA PAC has been active on behalf of MIBA allies, fielding and funding campaign contribution requests.

As expected, the big race this August is the Missouri U.S. Senate race, where former Missouri Governor Eric Greitens has a slim lead at this writing over Attorney General Eric Schmitt and Congresswoman Vicky Hartzler. Typically, voters move toward a single candidate in the last two weeks of the election.

As far as State House races go, we are watching all of the state senate races closely, as there are seven open seats (six Republicans and one Democrat) and 10 other seats where incumbents are running, with most facing either a primary challenge, a general election or both.

As far as the House is concerned, several contested primaries will decide 93 of the 163 seats up for election and 70 contested general elections in November. With the bulk of the House (93-seats) being decided by the primary election, I fully expect the House to stay in Republican hands.

The Missouri Primary Election is August 2nd, so get out and vote! ▪

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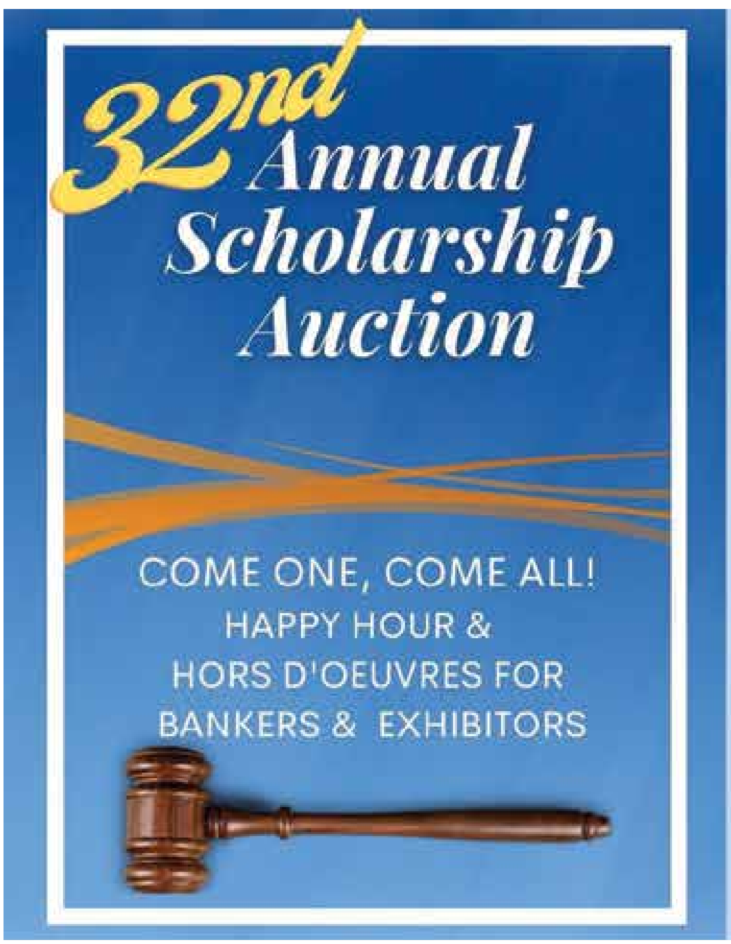

September is right around the corner where we will gather for another exciting Convention & Exhibition for our MIBA Membership, family and friends. This year's 32nd annual MIBA Scholarship Auction on Tuesday, September 13th, 2022, is at The Lodge of Four Seasons Golf Resort & Spa Shiki. We hope you are thinking about what special gift you will donate.

On Tuesday, the Exhibit Hall will close at 2:30 p.m. and the Happy Hour Reception and Silent/Live Auction will begin at 4:30 p.m. in the Granada Ballroom. All registered bankers and exhibitors are invited and welcome to join the "Bidding Frenzy" for all items donated!

If you already have your gift to donate, call the MIBA offices at (573) 636-2751 or go to MIBA.net > For Members > Annual Convention & Exhibition for your donation form.

Donations to and purchases at the auction are not deductible for federal income tax purposes.

A VIEW FROM THE CAPITOL

Congressman Blaine Luetkemeyer

Missouri's 3rd Congressional District

In January of this year, the Consumer Financial Protection Bureau (CFPB) declared war on its newest enemy: so-called "junk fees." The Bureau put out a press release with a headline that cleverly read, "Consumer Financial Protection Bureau Launches Initiative to Save Americans Billions in Junk Fees."[1] The problem is that neither in the announcement nor in the months since has the Bureau been able to find a definition for the term "junk fee." Instead, they have offered vague explanations of what could qualify, which could include nearly every consumer fee. CFPB Director Chopra has even gone so far as to suggest he has authority over hotel fees – he does not.

One of the reasons the Bureau relies on vague descriptions and absent data in their announcement is likely the fact that data does not support their arguments. In fact, data actually shows that Americans would rather pay the associated fees to ensure easy payments and have access to their desired banking services. The "junk fee" exercise is yet another one of the Bureau's attempts to expand its power and unilaterally determine what is and is not legal based purely on Director Chopra's biases. It is a pattern we have seen repeat itself over and over.

For this reason, Ranking Member Patrick McHenry and I led a letter[2] to Director Chopra regarding this unethical practice and urged the Bureau to stop disregarding consumer sentiment in favor of political priorities. The letter focused on overdraft fees, which the Bureau has decided should be classified as predatory "junk fees." This is despite a study from Curinos that showed American consumers see the benefit in having overdraft fees and prefer to have that service available. While the Bureau also made the blatantly false statement that banks are reliant on overdraft fees, the numbers show they only make up a tiny percentage of revenue. Again, this isn't about consumers or facts.

Unfortunately, my colleagues across the aisle in the Financial Services Committee seem to be on the same page as the CFPB. In our recent markup, Congresswoman Carolyn Maloney's overdraft bill was passed on a purely partisan basis. This legislation builds on the Credit Card Accountability Responsibility and Disclosure (CARD) Act that in 2009, gave the CFPB the authority to set the cap for late fees. Congresswoman Maloney's bill would give the CFPB similar authority over overdraft fees, which builds on an already misguided practice. The CFPB should not be a price setter, yet this bill has the potential to give the Bureau even more power over our financial system than it already has, which would affect almost every American consumer.

As bankers know, an overdraft is an emergency liquidity product that provides consumers with a cash infusion when they need it most. As our country's inflation rates continue to make history with upsetting speed, this is no time to do away with overdraft services that help a family keep food on the table or gas in their car. The fact that the CFPB has such little regard for consumers is extremely concerning and is further evidence of the "government knows best" mentality in Washington. However, I truly believe that many of the Bureau's actions are not supported by the law, and I am adamant that Congress and the private sector must hold them to account. ▪

"As our country's inflation rates continue to make history with upsetting speed, this is no time to do away with overdraft services that help a family keep food on the table or gas in their car."

Consumer Financial Protection Bureau Press Release

[1]https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-launches-initiative-to-save-americans-billions-in-junk-fees/

Luetkemeyer, McHenry Send Letter to Chopra Regarding So-Called "Junk" Fees

[2]https://luetkemeyer.house.gov/news/documentsingle.aspx?DocumentID=400681

2022

SCHOLARSHIP AUCTION WINNERS

Region 1
Farmers State Bank – Mackenzie Williams
Bank of Orrick – Tatum Floyd
Community Bank of Raymore – Mackenna Graef
Chillicothe State Bank – Jensen Simmer

Region 2
Farmers & Merchants Bank – Iain Ruge
Bank of Brookfield-Purdin N.A. – Ryan McIntyre
Regional Missouri Bank – Daniel Corbin
Farmers Bank of Northern Missouri – Carly Spencer

Region 3
First Independent Bank – Melissa Tate
Bank of Springfield – Courtney G. Chapman
Citizens-Farmers Bank of Cole Camp – Riley M. Bright
Farmers & Merchants Bank of St.Clair – Jackson Laumann

Region 4
FCNB Bank – Naomi Perkins
Legends Bank – Destiny Bax
Maries County Bank – Trey W. Snodgrass
Peoples Bank of Moniteau County – Dylan Knipker










MEET YOUR

MISSOURI BANKER

Name: **Siblings, Kevin Page and Lynsey Page-Waldman**
Title: **Vice President of Corporate Finance and Vice President of Customer Relations**
Bank Name: **Pony Express Bank**

> Never stop learning. Banking has been around since the advent of business, but modern banking requires modern solutions.

Where is your main bank and branches located? What is the market like?
Pony Express Bank is chartered out of Braymer, Missouri but the majority of our business comes from the Liberty branch located in the Northeast Kansas City Metro area. Liberty is one of multiple fast-growing suburbs throughout Northland with a population of approximately 35,000. We're conveniently located right off Interstate 35 and have seen tremendous growth in residential, commercial and industrial sectors over the past decade.

What is something unique about your bank?
Pony Express Bank is one of the few remaining 100% family-owned financial institutions located in the KC Metro area and we are proud to say that there are currently 4 members of the Page Family working at the bank. Scott Page, CEO and President, started with Pony Express in 1993 when the bank had approximately $12 million in assets. Scott's brother, Tom Page, CFO and EVP, joined in 1997 when the bank had roughly $50 million in assets and the family purchased the bank in 2003 with about $75 million in assets. Lynsey Page-Waldman, Scott's daughter joined the bank in 2012 when assets were about $135 million and then Kevin Page, Scott's son and Lynsey's brother, started in 2020 when assets were $222 million. Since then, we've grown to more than $340 million in assets by continuing to serve the community of Liberty and the greater Northland area.

How did you get started in the banking business?
Kevin – I got my start in banking during high school where I worked at the family bank as a teller on Saturday mornings and during summer vacation. After learning the retail side of the business, I transitioned over to the lending side and assisted with loan review & property inspections. After graduating from Liberty North High School in 2013, I headed south to Texas Christian University where I graduated with a degree in Finance & Accounting. I took a job as a Consulting Analyst in Fort Worth, Texas with a firm called JTaylor & Associates, specializing in Healthcare Mergers & Acquisitions.

Lynsey – I was a teller in high school after school and on the weekends at the family bank. I truly enjoyed the staff and the customers and it was a great job for a high schooler! I left for college at the University of San Diego with a plan to major in Business and no real plan to come back to the banking industry as I thought I wanted to get into the event planning world. After graduation, I took a job at the Hyatt in KC as an event planner but unfortunately the recession hit in 2008 and that job was eliminated.

What prompted you to continue the family tradition & join the Bank?
Kevin – When the pandemic hit in early 2020, I was quickly approaching my three-year anniversary with JTaylor. I began to evaluate how I wanted my career to unfold and started having conversations with my dad, uncle and sister about their succession

plan for Pony Express. Having grown up in and around the bank, I knew the culture was excellent and felt confident that my background in Finance & Accounting could be a valuable asset to help ensure our families' ownership of the bank continues into the next generation. My sister, Lynsey Page-Waldman, and I are proud to represent Pony Express as fifth-generation community bankers and look forward to helping facilitate further development throughout the area we've chosen to call home.

Lynsey – After being laid off from my event planning job in 2008, I worked as a finance administrator for a mobile app company called Handmark, and after four years there, realized I wasn't really ever going to move "up" and began thinking about my future. I was having a conversation with my dad about the bank's succession plan and things he needed help with at the bank and realized they all sounded like things I'd enjoy doing and that I knew I was good at. He kind of created a new role for me with a lot of different job descriptions which I love because it's not the same thing every day. Coming back to work for the bank also meant I'd get to help carry on the family name. So, in 2012 I made the switch back to banking and will celebrate my 10-year anniversary this year! Working with my dad, uncle and brother have been really great and surprisingly we haven't had too many arguments. We all know our strengths and weaknesses and have really worked together to allow the other to shine when/where they need to.

What is the most important thing you've learned from this career so far?
Kevin – Never stop learning. Banking has been around since the advent of business, but modern banking requires modern solutions. We're constantly working to improve our operation and service offering and that requires a commitment to adaptability and continued learning.

Lynsey – Never judge anyone's situation and always be willing to listen. Money is such a personal matter and sometimes people encounter hard times and just need a little help and someone to give them a chance. I love being a family-owned, community bank because we truly care about our customers and enjoy helping people through both good and bad times. Sometimes just picking up the phone when you see someone is in overdraft can lead you to learn they were sick in the hospital and just need a week or so to get themselves straightened out, etc. A big bank would never take the time to do that and I love that we have those types of relationships with our customers. Those simple (yet important) things we do have paid us back tenfold with our relationships and referrals from current customers. People know at Pony Express you're a name, not a number and we truly pride ourselves on that.

Sometimes just picking up the phone when you see someone is in overdraft can lead you to learn they were sick in the hospital and just need a week or so to get themselves straightened out, etc. A big bank would never take the time to do that and I love that we have those types of relationships with our customers

Tell us about the Bank's community investment efforts.
Pony Express has actively supported the growth & development of the Liberty Community for nearly three decades now. In addition to our service offerings as a bank, we're also involved with Liberty schools, Liberty parks, and various charities that work tirelessly to make this community such a fantastic place to call home. Our employees serve on various boards throughout the Northland and lend their time & expertise to making their respective organizations the best that they can be.

What is the Bank's biggest challenge in the area of Internet banking/mobile banking?
We've adopted all aspects of modern banking in an effort to meet the financial needs of our community in the most efficient and secure way possible. With the rising prevalence of malicious actors, particularly online, internet security & awareness has become one of our biggest priorities.

What's your favorite thing about your bank/banking in general?
Kevin – Helping our customers achieve their goals is easily my favorite part of banking. We have the unique opportunity to become partners with all types of business owners across all types of industries, and I always enjoy learning more about how others have chosen to make their living.

Lynsey – the relationships we've fostered through the years! It's amazing that it's almost been 20 years since I started as a teller in high school and the same customers are still here and we are now seeing their children and even some grandchildren come into the bank! It's truly a family bank and being able to help people through good times and bad is so rewarding. We also have a wonderful staff, many of who've been here for 20+ years, and they truly are the bread and butter of this bank.

If you didn't have a career in banking, what other career would you choose?
Kevin – I've always loved working with people and think I would have enjoyed a career in financial planning.

Lynsey – I am actually a wedding planner as my "side job" and have been for the last 10 years. I only do three-four a year so I'd probably choose to be an event planner of some sort but after 10 years in banking, I think banker's hours are definitely more appealing! ▪

A BACKGROUND ON
MITCH BADEN

MIBA recently interviewed Mitch Baden, the president and CEO of Royal Banks of Missouri, about his life, career and work perspectives.

Mitch was born in St. Louis, Missouri, and has lived most of his life there. Mitch's father, Arthur Baden, worked at a meat processing plant. "Dad started as the cleanup man in the meat plant. He was a smart guy and worked hard," said Mitch. "Everybody liked him; he was the life of the party! My dad worked his way up to become the No. 2 person and the head of sales. He died far too young."

Arthur and his wife Betty had four boys and a daughter. He died at 39 of colon cancer when Mitch was only 12. Before Arthur died, he arranged for his three older sons to work at the plant. He wanted them to understand the importance of a college education. It worked. Banking was easy compared to the work they did at the plant.

Mitch's older brother Steve started Mitch in banking and helped raise the two youngest children. "I have always looked up to Steve, and I was proud to follow in his footsteps," said Mitch. "Steve was the CEO at Royal Banks of Missouri for more than 20 years and retired in 2018. He was a great banker."

Mitch's older brother Dale is now the national sales manager for a company in San Antonio. Mitch's younger sister Donna worked as an office manager but has now retired with her husband. The youngest child, Larry Baden, has a Ph.D. from the University of Kansas and is a journalism professor at Webster University in St. Louis.

Mitch is the middle child and began working as a teller in June 1972 as a high school junior. Steve was working as a controller at Creve Coeur Bank, and Mitch visited him just after a teller was fired. "The head teller, Dee Pickle, came in ranting. Steve told her I was looking for a job, and she asked me three questions. The first was whether I could count backward by 10, the second was if I could add 10 and 20 together, and the third question was whether I could start working the next day. After that, I worked for the bank every year at Christmas and in the summer. She taught me that helping young people grow their careers was important. She probably put 20 young people my age through college. When she died, there

I am blessed to work for great principal shareholders, Linda and Matt Renner and Steve Pessin. They gave me the opportunity of a lifetime. I don't want to disappoint them. I owe them my best efforts. I do not take it for granted!" During his interviews, Mitch told the board he wanted the bank to be a relevant shareholder investment by growing shareholder value and improving client experience.

were hundreds of successful bankers at her funeral. She touched the lives of 20 people now helping to run banks. I am one!"

Mitch spent six years in Columbia, Missouri, while he and his wife, Robin Rone-Baden, earned degrees at the University of Missouri at Columbia. He earned a four-year B.S. degree. Robin earned a graduate degree in elementary school counseling. They stayed in Columbia an extra couple of years so she could finish her work before they returned to St. Louis. After Mitch had finished college, and while his wife was finishing her academic work, he worked at Boone County National Bank.

"I will tell anybody that the foundation for anything good in my life happened because I spent four years at Mizzou," said Mitch. "I met my wife and bought my first house there. I also worked for Mike Stroup at Boone County National Bank. He gave me my first opportunity in management. I ran a credit department when I was 22 or 23. He sent me to other banks to learn how to put together the department. I am where I am because of him." (Later, Central Bank bought Boone County National Bank.) "My mentors, Steve, Dee and Mike, helped create a very rewarding career. Because of their example, I really believe that my legacy is to help mentor and grow careers for young people the same way they did for me."

Mitch has three recommendations for anyone he mentors. "It doesn't take a lot of talent to be early," he said. "Our most precious resource is our time. One of our clients taught me this concept. I tell our team to be the first person in the room and the first to shake someone's hand. Respect a person's time!"

His second recommendation is to love what you are doing. "You spend more waking hours at work than with the family you love," he said. "Nothing is worse than going to a job you hate. If I sense a team member is not happy, I discuss how we can make it a more fulfilling opportunity. If we can't, then I encourage them to find a role that is satisfying! Life is too short; why work a job if you don't love it?

The third recommendation is to learn something new every day. "Know what you don't know, and find ways to improve yourself," said Mitch.

In St. Louis, Mitch worked very briefly at Landmark Bank and, later, at Boatmen's Bank for five years. "Mike Stroup was the first person I called to thank when I became a VP," said Mitch. But Mitch wanted more of a challenge, so he moved to Mercantile Bank for 13 years and South Side National Bank. When that bank sold, Mitch joined Steve at Royal.

Mitch attended St. Lewis University (SLU). "I stumbled on to the Jefferson Smurfit School for Entrepreneurial Studies. I attended the program and taught several classes as well. I figured if I was going to do business with small-business owners, I needed to understand what their leaders were thinking. Small-business owners think in a totally different way. What I learned in that program has had a big impact on how we run our own company."

Mitch also graduated from the ABA National Commercial Lending School. For years Mitch was the chair of the Minority Business Council in St. Louis, Missouri. He was also honored as the Missouri Financial Services Advocate by the United States Small Business Administration. "I thought about starting a new bank after South Side was sold, but Steve suggested I join him at Royal so we could work together." He laid our foundation and gave me the chance to grow to where we are today!"

"Bankers don't die; they just go to new banks," said Mitch. "Almost all of our Royal management team came from larger banks.

Continued on page 14

Continued from page 13

What makes us different and a great community bank is we choose to work at a community bank. We prefer the personalized, one-on-one service of a smaller bank. We all know what it feels like to be at a large bank where clients can become a number. We didn't like that culture. Like other community bankers, we prefer to develop relationships with our clients."

When Steve decided to retire, Mitch interviewed for Steve's position. "I didn't expect the board to choose me. Steve and I are not owners. I was 63 and thought they might want a younger person or be tired of having a Baden in charge. I am blessed to work for great principal shareholders, Linda and Matt Renner and Steve Pessin. They gave me the opportunity of a lifetime. I don't want to disappoint them. I owe them my best efforts. I do not take it for granted!" During his interviews, Mitch told the board he wanted the bank to be a relevant shareholder investment by growing shareholder value and improving client experience.

"I've worked for great people who want to make the bank as successful as possible, and I'm probably a better manager and think more strategically because this job came later in my career," said Mitch. "Most people have difficulty believing I am 67. I'm energized by our team, and I'm having too much fun to retire. I'm very energetic and enjoy working long hours. Being active and creative keeps your mind sharp. I work with an amazing group of young people, and their energy keeps me young."

Within 45 days of taking over as CEO, the bank was presented with a major acquisition opportunity. The expansion increased revenue, and the bank has had record dividends for the last three years, but the bank is still community-focused. Mitch understands that employees are the bank's biggest assets. Despite bringing in five new locations and growing to 17 locations, the bank did not lay off any employees and has continued to invest in its communities.

The Royal Bank of Missouri has replaced drive-up windows with interactive tellers and is the only one in St. Louis to expand its hours. To reach the interactive tellers, customers can drive or walk up to an ATM, press a button and connect to one of Royal's most experienced tellers.

"Clients love the individual service," said Mitch. "Transaction times are longer because people are visiting with friends. One elderly client in his 90s told us he was moving the accounts he'd had with us for 50 years because he didn't want to do business with an out-of-town service center. I told him we were not going out of the market. I showed him he would work with the same friends he has had for years. He is still a client today! Community banks are a part of the fabric of the communities they serve. I tell our team that we have failed if we start acting like a big bank."

When Royal purchased another bank last year, regulators repeatedly asked what Royal Bank would do with a facility in Center, Missouri. The office is in a community of 500 people. Center had farmers and clients who had banked there since the 1930s, and it is the only bank in town. Mitch said, "Why do you keep asking us about the Center location?" The regulators answered that they were concerned Royal Bank would close the facility center to be more efficient. Mitch said, "We are not planning to close or lay anyone off! I can commit to you that we are not closing our Center office."

Mitch knows he has worked with great people who shaped his career. "I hope I honor them by doing good things," he said. He has also been blessed with great opportunities. However, watching young team members grow has become the most rewarding part of his career. He said, "When I took over the job, I knew it wouldn't be for 20 years. My legacy wouldn't be the bank I took over; it would be the people I leave in charge after I retire. I watch young people really grasp our business and understand how important what we do is for

Mitch sees several challenges currently facing the community banking industry. “I think some regulators want to have fewer banks,” he said. “They think banks will be more efficient if they reduce our number. That’s a threat to community banks. We are trying hard to find good people, grow from within and do what we can to be solid citizens every way we can.”

our clients. It is very gratifying. I love molding the next generation of community bankers. Our management team is very young, and they are doing a great job. This story should be about them!”

He also values the relationships he has formed with clients. “My longest client has been with me almost 35 years and has joined me at three banks. You become a financial partner. You may not be an owner, but you are invested. Most likely, if someone were in my role in a big bank, they wouldn’t handle clients. As it is, I know my clients and work with them daily. I can say hello if I see them in a restaurant. I see many of them at church; my children probably went to school with their children. We want our communities to thrive because this is our home. We donate hundreds of thousands of dollars into our markets.”

MIBA makes it easier for Mitch to reach out to people he knows and trusts. “I can run an idea by other bankers, and they will give me an honest answer,” he said. “We may be competitors, but we are both in the business for the same reason, to make our communities thrive, so we don’t view each other as a threat. MIBA gives us the ability to network with other successful people. That is unbelievably important.”

MIBA also benefits members by providing training opportunities. “Training is a tremendous resource for our employees and me, personally,” he said. “During COVID, MIBA helped keep our staff trained and continued providing programs online and Zoom instead of shutting down.”

Mitch sees several challenges currently facing the community banking industry. “I think some regulators want to have fewer banks,” he said. “They think banks will be more efficient if they reduce our number. That’s a threat to community banks. We are trying hard to find good people, grow from within and do what we can to be solid citizens every way we can.”

The second challenge is nontraditional bank competitors like credit unions and online lenders. “We need to level the playing field,” said Mitch. “First, credit unions don’t play by the same rules as we do. They became major competitors the day regulators allowed credit unions to provide commercial loans. Providing a competitive pricing advantage is huge when you do not have to pay taxes. Most credit unions are tax-exempt. Online lenders are changing the lending landscape, but I wonder if the ease of borrowing will ever replace a personal relationship. When things are going well, anyone can be a good lender. The truly great lender is the one who sticks with you in tough times.”

Mitch thinks bankers must invest in and build their communities to deal with these challenges. “Community bankers live in our communities. We are active and reinvest our resources in our local markets,” said Mitch. “These are markets we call home!

Mitch and Robin have three children, a daughter and two sons aged 37, 30 and 28. The two sons started their careers at other banks but now work at Royal. One son is head of the mortgage group, and the youngest son is the assistant manager on the retail side.

Mitch and his wife sponsor and support many local charitable organizations within their community. One favorite is Operation Shower, which started in St. Louis. The website address is https://operationshower.org. The charity provides baby showers for women in the military or women whose husbands are in the military.

The PGA Tour partners with Operation Shower. “These young parents think they are going to get diapers and a blanket, but it is much more,” said Mitch. “It’s a great charity that honors the service of people who are willing to put their lives on the line for our freedom.”

Mitch’s main interest away from work is sports. “I love sports, but the only game I play is golf,” Mitch said. “I am also a huge supporter of the Mizzou football program and SLU basketball.

At the end of the interview, Mitch said, “I’m so blessed by the opportunity our ownership has given us, and so blessed to be working with a great group of young people. What we’re doing as bankers is a lot of fun. If you are in your late 50s or early 60s, I recommend jumping at any opportunity that comes your way.” ▪

2022 Annual Convention & Expo

MIBA

Join Us For An Exciting Line-up of Speakers and Events This Year!

Monday Golf Tournament, Opening Expo Reception & Rooftop Luau

The Annual MIBA Golf Tournament will take place at The Cove, a Robert Trent Jones Sr. signature golf course followed by our Opening Reception & Exhibit Hall Mixer, where once again Missouri's largest banking trade show will be on display. End the evening with a Rooftop Luau!

Tuesday General Session, Expo, Scholarship Auction & President's Dinner

Tuesday's General Session speakers will include Congressman Blaine Luetkemeyer, Robert Graham from Homeland Security, Tim Aiken from ICBA and Tony Repanich with Shield Compliance speaking about *Cannabis Banking Unlocked.* The MIBA Scholarship Silent Auction will take place Tuesday afternoon and will offer a large array of items for silent bidding. Join us that evening for the President's Reception & Dinner featuring our popular Lobster Fest where we will introduce the incoming Officers for 2022-2023 followed by the MIBA Scholarship Live Auction!

Wednesday Closing Session

Wednesday morning's MIBA/ICBA Partnership Breakfast is followed by our Hot Topics Sessions which will include Charles Potts ICBA's Chief Innovation Officer, an update from the Missouri Division of Finance and Federal Reserve Bank of St. Louis and Brian Koechner from the FBI speaking on White Collar Crimes.

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Room reservations must be made directly with The Lodge. To make online reservations, visit www. miba.net, click on Convention, then Online Room Reservations. Or call The Lodge direct at 888-265-5500. Request MIBA room block and rate of $151, plus tax and $15 resort fee.

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On Monday, September 12th, the MIBA will hold its 45th Annual Convention Golf Tournament at **THE COVE, A Robert Trent Jones Sr. Signature Golf Course**

The Tournament tees off at **10:00am**. Entry fee per person in $150- includes 2 mulligans, breakfast with Bloody Mary & Mimosa Bar, lunch, refreshments, cart and green fees.

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45th Annual MIBA Convention & Expo

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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.

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WHY HACKERS WANT YOUR COMPUTER

Your computer may be more valuable to an attacker than you think.

By John Streff

VantagePoint
EMPLOYEE OWNED

We hear so much about data breaches and cyber attacks these days. Learning that hackers exposed millions of credit card numbers or other pieces of personal information seems to happen more and more. Even large companies with well-funded security — such as Facebook, Microsoft, and Equifax — suffer at the hands of malicious cyber attackers. Considering how these mega-companies make such high-value targets, you may wonder, “How does this affect me? Why do I need to care about cybersecurity? Why would an attacker want my computer? There is nothing of value on it, and I only use it for email, social media, and occasional online purchases.”

What many people forget is that hackers are not only dangerous because of what they can take from you but also because of what they can give you. While it may be true that your personal computer does not store millions of credit card numbers, your PC still has potentially tremendous value to an attacker. You need to care about cybersecurity.

So, what can an attacker do with your computer? Let’s look at some major reasons an attacker may want your computer.

If you have saved your email password to your computer, so you don’t have to type it every time you log in, attackers may be able to access your email account. They could read your emails. They could even send emails in your name to wreak havoc in your life or damage your reputation. They could obtain the contact information of your friends and family. With access to your email, it would also be possible to reset the passwords of any online accounts that you have set up with that email address using the “Forgot my Password” button on a website’s login page. Access to your email provides wildcard access to most of your online accounts. Consider what these other online accounts are. Someone with access to your Amazon account could probably make purchases using the credit cards you have saved in your account. Think of the damage an attacker could do to your personal and professional reputation with access to your Facebook, Twitter, and LinkedIn accounts.

A hacked computer is also dangerous because it may allow attackers to access your computer’s webcam and microphone. Attackers could potentially take pictures of you without your knowledge. If the images captured were private, they could blackmail you. For this reason, keeping your webcam covered when not in use is always a good idea.

With access to your computer, attackers could also install malware (malicious software) capable of encrypting all your files and making them unusable until you pay a price to have the files decrypted. This is commonly called ransomware, as the attackers hold your computer for ransom. Even if you don't have anything of value on your computer you are afraid of losing, there is still danger. Some malware can spread from one computer to another on a network. Other computers on the network may contain important files that must remain safe.

As if all of this were not enough, an attacker could use your computer to host a malicious website infecting the computers of all visitors with malware. Your computer could spread malware all over the world without your knowledge! An attacker could even place illegal content such as child pornography on this website, and you are legally responsible for your computer's contents.

An attacker could also use your computer's processing power to send spam emails worldwide. These emails may contain attached malware or links to malicious, malware-hosting websites. An attacker could also install malware that joins your computer to thousands or millions of other hacked computers worldwide to form a "botnet," an army of compromised computers. This botnet could collectively overwhelm a target website (such as Amazon) and cause it to crash. This is known as a distributed denial-of-service (DDoS) attack.

An attacker could use your hacked computer to generate revenue through cryptocurrency mining. Cryptocurrencies such as Bitcoin are completely digitized forms of money. Sometimes, attackers will try to induce people to visit websites that host pirated movies. While the victim is spending time watching the pirated movie, the website "hijacks" the victim's Internet browser and uses its processing power to mine cryptocurrency.

As you can see, a hacked computer is an asset to an attacker. Much more is at stake than your personal photos and text documents. Downloading and opening a malicious file or clicking a single link to a malicious website is enough to unleash the chaos described in the preceding paragraphs. There is, however, no reason to despair. You can take practical steps to protect yourself.

First, be careful what you click on. Don't click on links or open attachments from emails you are not expecting. Verify the origin of the message. Hover your mouse over a link before clicking it to see where it will take you. If the site is unfamiliar or looks suspicious, do not click on the link.

Second, do not use passwords. Instead, use passphrases! The length of a passphrase is far more important than the complexity. Often, websites insist that you use a certain number of uppercase letters, numbers, and special characters. The length, however, is far more important. Use at least 12 characters. An example of a good passphrase is "DeskComputerPhoneBottle20!"

Third, apply updates when they become available and do not repeatedly postpone them. Software vendors often release updates to fix critical security vulnerabilities.

Fourth, use updated antivirus software.

Fifth, Take regular backups of your important files in case of a ransomware attack. If you are the victim of ransomware, do not pay the ransom, as this encourages the attackers. Reinstall everything on your computer and restore your important files from the backups.

Sixth, keep your webcam covered when you are not using it.

Seventh, monitor your financial accounts for suspicious activity. A good credit monitoring or credit freezing service can help with this.

Finally, do not enter sensitive information such as credit card numbers into a form on a website with HTTP in the address bar. Ensure the site uses HTTPS, which means your information will be encrypted when sent to the website.

Remember that even though you may not store millions of credit card numbers on your computer, you can still be a target. Recognizing every computer has potential value to an attacker and taking the steps listed above will help you stay safe in the dangerous cyber world. ■

An attacker could also use your computer's processing power to send spam emails worldwide. These emails may contain attached malware or links to malicious, malware-hosting websites.

THE BATTLE FOR DEPOSITS IS HEATING UP: ARE YOU READY?

By Achim Griesel and Dr. Sean Payant

Core deposits, especially low-cost core deposits, have long been the key driver for franchise value in the financial services industry. That said, with the start of the pandemic and the ensuing influx of cash from stimulus checks and increased personal saving rates, financial institutions saw so much excess liquidity that bankers began to question the value of any deposits, including low-cost core deposits.

Total deposits in FDIC-insured banks grew by over five trillion from the end of 2019 to the end of 2021. In the two years prior, deposits had grown just over one trillion. These same trends on a smaller scale held true for credit unions.

Peak deposit growth happened in 2020. By September 2021, the personal saving rate was back at pre-pandemic levels. Deposits at financial institutions continued to grow, but at a much slower rate than in 2020. Finally, in March 2022, the data showed personal checking account balances dropped for the first time since Q3 2021. *(See Graph Below)*

In addition, consumer spending is now soaring. According to a recent article in Bloomberg, the top four banks in the nation have seen a 27% average increase in consumer credit card spending for Q1 of 2022 vs. Q1 of 2021.

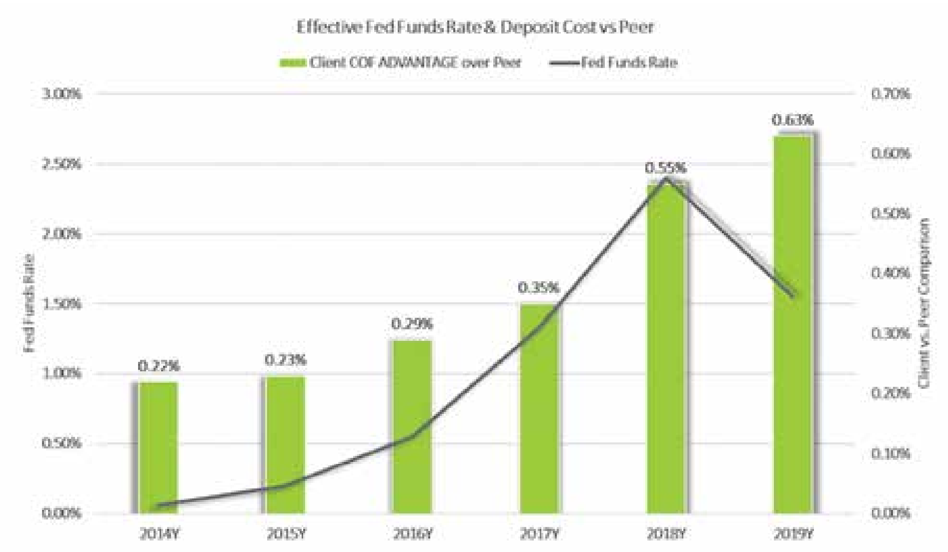
Inflation is at record highs, and Federal Reserve Chairman Jerome Powell indicated in his most recent speech that multiple 50bp rate hikes should be expected in the remainder of the year, and as early as June and July.

Unlike in previous rising-rate environments, financial institutions haven't felt the same pressure to raise rates yet in light of the excess

Source: U.S. Bureau of Economic Analysis (fred.stlouisfed.org) liquidity in the system. That said, financial services analysts expect deposit betas in the 25-50% range over the next two to three years. For financial institutions, that means passing 25-50% of these rate increases on to our depositors. That is significant, and the response will not be the same for all institutions.

Given this variety of possible responses, we anticipate seeing rate offers from financial institutions — most likely led by online and digital banks, with community-based financial institutions following at a slower pace and on a smaller scale. Assuming the bulk of this effort won't happen until 2023 and beyond, the question financial institutions must ask themselves is, "What should we do now?"

Institutions with low-cost and less rate-sensitive funding are well-positioned for any rate environment, but especially for the one we are about to enter. The chart below illustrates what the deposit cost advantage looks like when a financial institution has a lower cost of funding. The rate environment we are entering is similar to what we saw in 2016-2018. As rates were rising, the deposit cost advantage over peers dramatically changed. In a low-rate environment, it was small but grew to 63bp when rates were at the level we expect to see again in 2023-2024.



Strategically growing low-cost funding today is the key to successfully positioning your organization for tomorrow. Even if you have excess liquidity at the moment, there isn't a better time to grow low-cost funding by growing your customer base and increasing your checking and savings deposits. The majority of these funds will be non-interest bearing, and those that are interest-bearing will be at the lowest rates.

To position your financial institution for the coming battle for deposits, it is imperative that you:

1. Offer compelling retail and business deposit products;
2. Remove barriers to growth (e.g., evaluate your Customer Identification Program);
3. Use data-driven targeted marketing to reach high-probability conversion prospects; and
4. Equip your employees with the skills to capitalize on every opportunity every time.

If your strategic goals include low-cost funding and a strong position in any rate environment, you have to be intentional about growth. If you focus on growing core relationships, you will not have to follow other institutions up and down the rate cycles. ▪

Achim Griesel is president and Dr. Sean Payant serves as the chief strategy officer at Haberfeld, a data-driven consulting firm specializing in core relationships and profitability growth for community-based financial institutions. Achim can be reached at 402.323.3793 or achim@haberfeld.com. Sean can be reached at 402.323.3614 or sean@haberfeld.com.

Institutions with low-cost and less rate-sensitive funding are well-positioned for any rate environment, but especially for the one we are about to enter.

DIVING INTO DIGITAL CURRENCY:

What You Need to Know About Crypto

By Matt Herren, Director of Payment Strategy, CSI

The digital currency environment is a space that traditional financial institutions should watch in order to stay competitive. There is much to gain from understanding and staying ahead of digital currency trends, including cryptocurrencies.

As they navigate this new digital currency landscape, bankers should consider customer demands and how to best position themselves for success.

What is a Cryptocurrency?

Cryptocurrencies are digital or virtual currencies protected by encryption, making counterfeiting and double-spending practically impossible. Many cryptocurrencies use blockchain technology, a distributed ledger enforced by a network of computers.

In short, cryptocurrencies leverage advanced mathematical formulas to create digital assets. The value of these digital assets ebbs and flows, much like traditional currencies or stocks. Sophisticated cryptography prevents counterfeiting and fraudulent transactions.

Cryptocurrencies have also become more popular in recent years. TIME reported the world's cryptocurrency as worth more than $3 trillion globally, and consumers transact trillions of dollars in value each year. While there has been much debate over the true "value" of cryptocurrencies, these digital assets have undoubtedly made headlines — both positive and negative — for the value the marketplace has placed upon them.

It's important to remember that volatility is part of any emerging market and has been a part of the crypto space since its inception. However, the general trend has consistently been upward. More established crypto assets have gained additional certainty from a regulatory perspective, making them more attractive offerings as banks begin to explore this space.

The volatility in the crypto space has caused some to question if consumers should participate, but this creates even more demand for banks to serve as trusted partners to guide consumers to safer, more established options like Bitcoin.

Why Should Your Bank Consider Entering the Cryptocurrency Marketplace?

In short: Banks should care about cryptocurrencies because many of their customers are showing interest and competitors are getting there first. Capitalizing on this trend could ensure that customers engage in the space safely and deepen the connection with their institution.

According to Visa, 32% of crypto-aware consumers own cryptocurrency, with 21% being active owners who have transferred crypto or used it in a transaction. Despite the difficulties banks have implementing digital currency services, there's no reason they can't dip their toes in the water. A recent Cornerstone Advisors survey found that 60% of crypto owners would use their bank to invest in cryptocurrencies, and another 32% might.

Customers are interested in digital assets, and banks can use this interest to further their position at the center of their financial lives. As with previous innovations like digital banking, the capacity to control the customer experience and truly drive strategy depends upon how quickly a bank adopts it.

Customers are interested in digital assets, and banks can use this interest to further their position at the center of their financial lives.

Financial institutions have an opportunity to maintain their role as financial advisors regarding crypto. Many consumers want to participate but need a trusted partner, such as their bank, to better understand how. In addition to offering education, allowing customers to try their hand in the crypto space could generate additional revenue.

What Do the Regulators Say About Crypto Assets?

As the space evolves, regulations governing digital currencies are updated on an ongoing basis. Financial institutions should stay up to date on regulations and instructions from federal regulators regarding decentralized cryptocurrencies.

Recent guidance from the Federal Reserve, FDIC and OCC has focused on the need for greater clarity, with tentative guidance around:

- Crypto-asset custody
- Facilitation of customer purchases and sales of crypto assets
- Loans collateralized by crypto assets
- Activities involving payments
- Activities that may result in crypto asset holding on an institution's balance sheet

Continued on page 28

Continued from page 27

Institutions should look for additional clarity from the agencies throughout 2022 and beyond to best understand policies, potential gray areas and what might come next. Looking ahead, it's wise to keep an eye on the Federal Reserve and additional regulatory changes. Keep in mind that while there may be risk in emerging spaces, inaction could pose risk as well.

What is Crypto Custodial Management?

Bankers needn't worry about the ins and outs of crypto to offer custodial management services. Banks can simply become channels through which customers engage. A bank's role in working with a custodial management system is to remove some of the risks and act as a trusted vault of information. The implications are straightforward:

- A bank partners with a technology provider to offer Bitcoin wallets through digital banking.
- Customers buy, sell and hold Bitcoin as an asset rather than currency.
- Banks generate fee revenue, gaining a certain percentage for each transaction amount.
- The technology partner facilitates tax filings and offers downloadable tax forms.

Effective custodial management uses best practices to safeguard crypto assets and the keys to access them. These safeguards require avoiding hot wallets, whose keys are still connected to the internet and therefore vulnerable. Another best practice is breaking keys into parts so that no one person has access.

Getting Ahead of Digital Currency Trends

The adoption of digital banking, bank apps and self-service options shows that financial institutions can adapt to new trends in technology. Banks must now continue to innovate to meet consumer needs in an increasingly competitive landscape.

This space deserves continued attention by all financial institutions, and it is time to craft a strategy before someone else does it for you. Listen to CSI's Fintech Focus podcast for additional insight into cryptocurrencies and how financial institutions should move forward in this space. ▪

Matt Herren is the Director of Payment Strategy at CSI. With a strong focus on emerging technologies and how they apply to the financial industry, Matt has led CSI's effort to drive innovation in the payment space. In his role, Matt has worked to enhance customer experience and helped direct innovative product offerings to increase bank profitability, allowing banks to realize industry-leading results and maximize program performance.

DATES AND EVENTS

MIBA

AUGUST

TUE., AUGUST 2 *10:00 a.m.- 11:30 a.m.*
Emerging Payments: Embracing Same Day ACH, RTP & FedNow

WED., AUGUST 3 *10:00 a.m. - 11:30 a.m.*
CDD: Creating an Effective Program from the Frontline to the Backroom

THURS., AUGUST 4 *10:00 a.m. - 11:30 a.m.*
Securing Collateral Part 1: Forms UCC-1 & 3: Filing, Perfection, Amending & Terminating

THURS., AUGUST 4
Leadership Division Meeting & Day Out – Top Golf St. Charles

TUE., AUGUST 9 *2:00 p.m. - 3:30 p.m.*
Managing a Borrower's Business Through a Loan Agreement

WED., AUGUST 10 *10:00 a.m. - 11:30 a.m.*
E-SIGN Act: Electronic Loan Document Delivery

WED., AUGUST 10 *2:00 p.m. - 3:30 p.m.*
Characteristics of Strong Risk Assessments: Tools to Monitor & Report Results

THURS., AUGUST 11 *10:00 a.m. - 11:30 a.m.*
CECL Implications for Planners & Procrastinators:
Deadline Jan. 1, 2023

FRI., AUGUST 11 *2:00 p.m. - 3:30 p.m.*
Compliance with E-SIGN,
E-Statements & E-Disclosures

TUES., AUGUST 16 *10:00 a.m. - 11:30 a.m.*
Mission TRID: Overcoming Examiner-Cited Mistakes

TUES., AUGUST 16 *2:00 p.m. - 3:30 p.m.*
Transitioning Away from LIBOR: Preparation & Practicalities

WED., AUGUST 17 *2:00 p.m. - 3:30 p.m.*
Managing Zoom, Microsoft Teams, Slack & Other Collaboration Platforms with Effective E-Policies

WED., AUGUST 17
Ag Summit MIBA Office Jefferson City

THURS., AUGUST 18 *2:00 p.m. - 3:30 p.m.*
WSUD vs. Stop Payment: Definitions, Differences, Compliance

TUES., AUGUST 23 *2:00 p.m. - 3:30 p.m.*
Adding the "Wow Factor" to Credit Analysis

TUES., AUGUST 23
3rd Qtr. Community Bankers for Compliance Meeting, MIBA Office Jefferson City

WED., AUGUST 24 *2:00 p.m. - 3:30 p.m.*
Maximizing Recoveries on Charged-Off Loans

THURS., AUGUST 25 *10:00 a.m. - 11:30 a.m.*
Reg CC Check Hold Requirements & Funds Availability

TUES., AUGUST 30 *2:00 p.m. - 3:30 p.m.*
The Way Forward to MORE Time: How to Manage Your Time, Instead of It Managing You

WED., AUGUST 31 *2:00 p.m. - 3:30p.m.*
A Cryptocurrency Primer for Banks: Guidance, Risks & Red Flags

SEPTEMBER

SEPTEMBER 12 - 14
MIBA 45th annual Convention, The Lodge of Four Seasons, Lake Ozark

Up with Coupons

Larger interest payments can build a floor under your bond prices

By Jim Reber
ICBA Securities

Up with People, which readers of a certain age may remember, was an organization that had a run of popularity in the 1970s and ‘80s by promoting wholesome values and positive thinking. Its delivery channel was through song and dance performances, often in large arenas and stadiums.

Up with People provided the halftime entertainment for five Super Bowls between 1971 and 1986, though in recent decades, it has been relegated to the dustbin of a bygone era. Today's attitudes toward pop culture, it seems, have little room for this squeaky-clean message; The Simpsons had several episodes featuring a snarky knockoff, “Hooray for Everything.”

More salient to the current environment, at least pertaining to community banking, is a simple-to-execute investment strategy: Up with Coupons. This tactic can be employed at any time and in any interest rate scenario. We're talking about it today because it could well be utilized to limit the price volatility and normalize the cash flows of your bond portfolio. As we've seen, market values have been on a one-way trip in 2022, and putting a floor under your investments may strike some as a good idea.

MOVING TARGET

Looking back just a year, we see a totally different rate landscape. It was nearly impossible to buy a bond, particularly an amortizing security, which had a price as low as $100, much less at a discount. So, going “up in coupon” would seemingly have heaped an additional pile of prepayment risk onto the portfolio at a time when mortgage refinancing was setting its own world records.

For example, in June 2021, a 15-year agency mortgage-backed security (MBS) with a 1.0% coupon would have cost about 100.00, so if your bank purchased that security back then, your book yield would forevermore be 1%. A similar bond with a higher coupon, say 2.5%, would have cost about $104.50. Its resultant yield would have been totally a residual of the prepayments, over which an investor has little control. Many portfolio managers opted for the lower coupon, given the need to stabilize the shrinking net interest margins.

MBS SHAKEOUT

Today, of course, we have a completely different set of dynamics; foremost is the lower prices for all things in the bond world. The 15-year 1.0%'s are now worth around 86 cents on the dollar, for a decline of about 14%. The 15-year 2.5%'s are down in price “only” about 10%. This demonstrates how premium (up-in-coupon) pools will experience price compression in low-rate environments, like the bond market of a year ago. When a market sell-off occurs, the price declines will be less acute for the higher coupon cohorts.

Another factor is that average lives and effective durations will remain shorter for the higher coupon securities. Using very recent speeds of our two model pools as examples, the 1.0% bond now has an expected average life of almost six years, while the 2.5% is around four years. This is part of the reason that the higher coupon's price has declined less than the cut coupon pool. But to be clear,

“As we've seen, market values have been on a one-way trip in 2022, and putting a floor under your investments may strike some as a good idea.”

neither of these are expected to have much prepayment activity in the near future, as the collateral for both is plainly out of the money to be refinanced.

DISCOUNT MUNIS: BUYERS BE ALERT

Let's shift investment sectors, but stay on message. The tax-free municipal segment of a bank's collection of bonds is an important determinant of overall performance. Certain rules apply to tax-frees purchased at prices below par that you may have forgotten since "discount munis" was an oxymoron for most of the last four years.

The Internal Revenue Code states that a tax-free bond that came to market either at a par or premium price, which is subsequently purchased in the secondary market at a discount, is subject to capital gains tax to the extent the yield is attributable to the discount. For example, a bond with a 3.0% coupon that came to market at par, and is now priced at a discount to yield 4.0%, will be taxed at the capital gains rate on the 1.0% incremental market yield.

The upshot is a muni priced to yield 4.0% may not yield 4.0%, given its coupon and original price. Your brokers can and should walk you through the ramifications of these matters, which have some subplots that space does not allow to discuss here. The easiest workaround? You guessed it: up-in-coupon bonds. Munis that have higher stated rates, which today mean fours and fives, have built-in cushions against falling prices and avoid capital gains tax liabilities.

> Many portfolio managers opted for the lower coupon, given the need to stabilize the shrinking net interest margins.

Ultimately, multiple applications of this strategy suggested here can make life better for your community bank. Limited price volatility? Probably. More predictable cash flow? Likely. Up with income? Most expectedly. ▪

Jim Reber is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks. He can be reached at jreber@icbasecurities.com.

New ICBA Securities Directors ICBA Securities has added these four leadership bankers to its Board of Directors: Tommy Bates, ICBA Chairman, Legends Bank, Clarksville, Tenn.; Aza Bittinger, Community Bankers Association of Ohio, Columbus, Ohio; Blake Heid, First Option Bank, Paola, Kan.; and Craig Wanichek, Summit Bank, Eugene, Ore.

NEW ASSOCIATE MEMBER

Pacific Stock Transfer

William Saeger, SVP
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pacificstocktransfer.com

Pacific Stock Transfer provides full stock transfer services to Community Banks. The primary responsibility of a transfer agent is to handle new issuances, stock transfers, legend removals, shareholder inquiries, record keeping, annual meetings, dividends mergers, Dividend Reinvestment Plans and more. We take pride in our work, and in helping our clients achieve outstanding results.

Interest Rate Risk and Investment Strategies Seminar

October 19-21, 2022 | Oklahoma City, OK

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OCT

Two years after the pandemic left financial institutions drowning in excess liquidity at historically low interest rates, the industry faces a new challenge... rising interest rates. The Fed has quickly pivoted from supporting the economy to fighting inflation and institutions are now facing the first rising rate environment in years. Regulators have watched with concern as loan and investment durations extended to record highs in a search for yield and will have a renewed focus on the Investment Portfolio and Interest Rate Risk Management. Portfolio managers can no longer be reactive, but must be proactive in managing their investment portfolio and balance sheet in the face of rising rates and a flattening yield curve. This seminar will examine all of these concerns and present actionable strategies to better prepare your institution for the uncertainty ahead.

Join us for an in-depth discussion of the following topics:

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- **Interest Rate Risk —** How to ensure you are prepared for the heightened regulatory focus coming in the years ahead
- **Liquidity Risk Management —** Best practices for managing liquidity risk as rates rise
- **Investment Portfolio Strategies —** Adapting your strategy and finding the best relative value for rising rates and a flattening yield curve
- **MBS/CMO Market —** Balancing prepayment and extension risk in an uncertain mortgage rate environment
- **Municipal Market Update —** The latest on managing municipal credit risk and finding the best relative value

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WHO SHOULD ATTEND

Financial institutions' CEOs, CFOs, investment officers, board members, and those who are directly or indirectly responsible for financial management functions will benefit from this seminar. ***There is no cost for this seminar.***

ACCOMMODATIONS

A block of rooms is available at The Skirvin Hotel. Identify yourself as a Baker Seminar attendee (or group code TBG3) when calling **+1 (800) HILTONS**. The special room rate will be available until the room block is sold out.

AGENDA

Wednesday, 19th
Twin Hills
Golf 1:00 pm

Thursday, 20th
Breakfast 7:30 am
Seminar 8:30 am
Lunch 12:00 pm
Adjourn 4:00 pm
Dinner 7:00 pm

Friday, 21st
Breakfast 7:30 am
Seminar 8:30 am
Conclusion 12:00 pm

For your convenience, register for the seminar online at GoBaker.com/oklahoma. Call Skoshi Heron at 888.990.0010 for more information.

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