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OCTOBER 2022

THE VOICE FOR MISSOURI'S INDEPENDENT BANKERS

PRESIDENT'S MESSAGE

Elections and Advocacy for Community Banks

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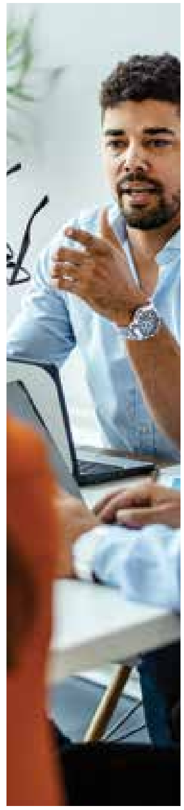

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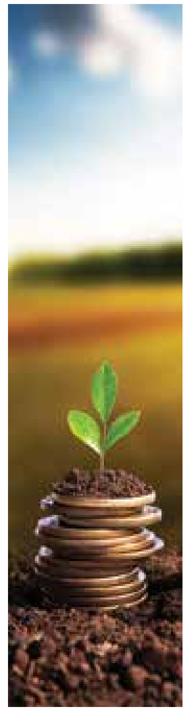

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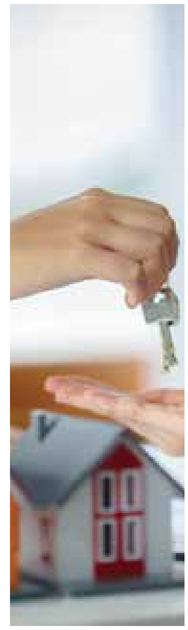

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Tyler Bender

MIBA President
Midwest Regional Bank
Festus, MO

@tmbender

"Elections are a fundamental part of our democracy. To be heard, participation in our democracy is necessary."

PRESIDENT'S MESSAGE

Elections and Advocacy for Community Banks

This letter is my first as the newly elected President of MIBA. It is an honor to serve you and all community banks in Missouri. Following Jack Hopkins as President is daunting, and I will continually strive to meet the expectations he set through his example.

After September's very enlightening and informative convention, I'd like to take the opportunity to highlight two critical topics: Elections and Bank Advocacy.

Elections

Elections are a fundamental part of our democracy. To be heard, participation in our democracy is necessary. As Thomas Jefferson said, "We do not have government by the majority. We have government by the majority who participate." I often speak with people who bitterly complain about the government, but when asked if they voted, they answer no. The government and its ever-changing policies are constantly targeting community banks. The only shot is to have the right players representing us. If we do not vote, then we certainly will not have representation. We must educate ourselves on the issues and candidates' beliefs regarding community banks and small businesses. Their agendas are often surprising. The elections next month will go a long way in deciding the future of banking. We must turn up at the polls and vote.

Advocacy

Beyond voting, we must make our voices heard. I know many people who are frustrated with what they see as a corrupt system not worth the effort to fight. This view could not be further from the truth — our voices matter. They are listening in the Halls of Congress and the offices in Jefferson City. They are listening to those who make the most noise. As the saying goes, the squeaky wheel gets the grease. Credit unions, consumer groups, and other organizations are making a lot of noise. We need bank advocates who are willing to step up. I challenge all community banks in Missouri to find at least one person in their institution to be an advocate. Have them reach out to the MIBA offices and ask what they can do.

They are listening in the Halls of Congress and in the offices in Jefferson City.

Beyond visiting Jefferson City and Washington, letters, phone calls, and meetings are beneficial. Have your bank advocates utilize the tools provided by MIBA and ICBA. If they need any guidance, feel free to have them reach out to me as well. I draft many letters, use social media (Twitter is an excellent resource for staying informed of what is going on in Congress), and constantly touch base with staffers. There are many tools we can use. Just remember, to be heard, we must make enough noise! ▪

Connect with Tyler at @tmbender

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FROM THE TOP

COMPLIANCE

Brad Bolton

Chairman of the ICBA

@bradmbolton

"Managing compliance is a role that community bankers take more seriously than any other segment of the financial services industry. We know the decisions we make, the way we do business, and the manner in which we conduct business, has an effect on our customers and communities."

In today's intense regulatory landscape, compliance extends to every aspect of banking, so much so that no one person or team can be solely charged with managing a bank's compliance requirements. In fact, compliance has grown to become a massive responsibility that must be part of every employee's job. We're looking at the need for a full culture of compliance.

But what does it take to get to that point? It has to start at the top. When I was new to my CEO position, we were faced with the retirement of a seasoned compliance officer, and we transitioned that role by promoting a rising leader to the position. This individual is exceptionally bright, but we saw the writing on the wall: compliance is far more than a silo within the bank. So, we made a commitment to her that we would walk beside her and support her in her compliance journey. Our senior leadership team took that to heart, and it stuck with us, creating an environment where compliance plays a significant role in everything from our strategic direction to our daily operations.

We didn't realize we were creating a shift in our habits, but we have benefited from that decision. To this day, I still share important regulatory and compliance articles with relevant team members, emphasizing hot-button issues or keynotes along the way. I hope by exemplifying an emphasis on compliance, the rest of the organization recognizes its importance to our business.

Regulations require what we do every day as community bankers: protect our customers. That is probably why managing compliance is a role that community bankers take more seriously than any other segment of the financial services industry. We know the decisions we make, the way we do business, and the manner in which we conduct business, has an effect on our customers and communities.

Thankfully, everybody wins when compliance becomes a bank focal point. Employees gain a broader understanding of the "whys" behind decisions. Customers benefit from additional protections, disclosures, and support. Regulators win when a bank's exam is simple and straightforward, and it eases their workload when compliance is a priority. Even shareholders receive an advantage because a happy customer base is a referring customer base.

So, as you read this month's compliance issue, I hope you'll consider how to create or enhance your own culture of compliance. Because when you do, you strengthen not only your bank but the products and services you bring to your community. ■

My Top 3

Compliance discussions for every team

1. Reg E/Overdraft Programs and Representments
2. Fair Lending/Section 1071/TRID
3. Data/Third-Party Management/Cyber

Connect with Brad at @BradMBolton

Rebeca Romero Rainey

ICBA President & CEO

@romerorainey

FLOURISH

This month's issue of Independent Banker focuses on budgeting issues with a special emphasis on the ICBA National Community Bank Service Awards. With that two-pronged concentration, I can't help but consider the connection between our role of service and the impact regulation can have on our very ability to serve.

Inherent to our business model is a passion for supporting our communities, one that allows for flexibility to meet the individual needs of our customers. On the other end of the spectrum, rigidity is intrinsic to regulation. That pressurized relationship constantly needs calibration to ensure that our customers and communities remain the priority, and regulators and legislators need to understand that regulatory constraints often limit a community bank's ability to support its customers.

For example, there's a lot being discussed about the overdraft rules, how they will get written and what effect they will have on the communities we support. Overdraft is a service we provide to our customers — one that is clearly disclosed and articulated — and our customers choose to derive value from it. Overzealous regulation will limit a product specifically designed to protect their interests.

Doing what's right for our customers remains our chief priority and guiding principle, and there's certainly much we can do outside of our banking services to make that happen. Just look at this year's Community Bank Service Award recipients. American Savings Bank in Hilo, Hawaii, runs the Kahiau Giving Campaign to benefit local nonprofits. First Community Bank of the Heartland in Clinton, Ky., started its "Make a Difference Program" with the goal of supporting foster children, and has expanded it to not only enhance that vision but also to incorporate an added community service focus each month. These honorees exemplify the spirit of community banking, one that we carry with us in our everyday actions on behalf of our communities.

Community banks stand out in today's financial services space because our business model depends on an ecosystem where the bank only benefits when customers do. That's why ICBA focuses much of our work on telling those stories to legislators and regulators, ensuring they understand how community banks show up for their communities. They need to see that we take care of those we serve.

That's why I can say with confidence that no matter the regulatory pressures that come to bear, we will continue to thrive. And because we lead with a spirit of service and a focus on doing the right thing by our customers, our communities will flourish as well. ▪

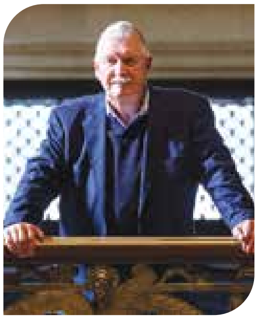
"Community banks stand out in today's financial services space because our business model depends on an ecosystem where the bank only benefits when customers do."

Where I'll be this month

I'll be attending the Community Bankers of Georgia Annual Convention and continuing to advocate for community banks here in Washington.

Connect with Rebeca @romerorainey.

MIBA LOBBYING
REPORT



Andy Arnold
Arnold & Associates

With the August primaries behind us, a clearer picture of the 2023 legislature is emerging. There will be eight new members of the Senate come January. Given the makeup of the districts, we predict the following will be elected in November: Nick Schroers, 2nd; Travis Fitzwater, 10th; Rusty Black, 12th; Curtis Trent, 20th; Mary Elizabeth Coleman, 22nd; Tracy McCreery, 24th; Ben Brown, 26th; and, Jill Carter, 32nd.

While the Republican/Democrat makeup will remain the same, several of those elected (Schroers, Trent, Coleman, Brown, and Carter) are not happy with the status quo regarding leadership. So, we will look for a vigorous debate over the next couple of months ending with leadership elections the week after the November general election.

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On the U.S. Senate front, current Missouri Attorney General Eric Schmitt won the Republican nomination; and Trudy Busch Valentine won the Democrat nomination. This is shaping up to be an expensive match-up with the recent U.S. Supreme Court ruling on anti-abortion law and the reversal of the 1970s ruling of Roe vs. Wade taking center stage.

There will also be a proposed amendment on legalizing the adult use of marijuana on the ballot. We'll report more after the mid-November House and Senate Republican caucus regarding leadership. ▪

Camber M. Jones

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LEGAL EAGLE SPOTLIGHT

Beware Collateral Pitfalls in Agricultural Loans

It cannot be disputed that the agriculture and food industries are a substantial part of the American economy. In 2020, according to the USDA, agriculture, food, and related industries reflected 5% of the U.S. GDP, or approximately $1.055 trillion. In Missouri, according to a 2021 economic contribution study, agriculture, forestry, and related industries contributed $34.9 billion in value added to the Missouri economy.

Given its economic importance, many protections are given to agricultural producers and buyers of agricultural products that alter or modify the traditional collateral rules in lending. The purpose of this article is to highlight some unique provisions a lender should be cognizant of when making an agricultural-related loan.

The Food Security Act of 1985

The Food Security Act of 1985 (FSA) was enacted, in part, to protect purchasers of farm products (11 U.S.C. § 1631). Congress was concerned that certain states would permit a secured lender to enforce liens against the purchaser even if the purchaser did not know that the lien existed. Congress found that this double payment burdened interstate commerce and inhibited free competition.

Under the FSA, for a secured lender to remain perfected in farm products, it must provide notification of its security interest to the potential purchaser of such farm products. How notice is provided depends on whether the respective state is a direct notification state or has adopted a central filing office. For example, Missouri is a direct notification state. The lender should know which state's notifications laws apply, or risk being unperfected.

As part of its security agreement, a lender should require a list of the borrower's buyers, commission merchants, and selling agents. This list will provide a basis for whom to send its notification. As part of its routine review of the producer's financials, the lender should review where sales are being made by the producer in addition to being generally aware of other buyers in the producer's area. Even if not included on the list provided by the borrower, the lender will want to consider sending notifications to such buyers.

Assignment of Federal Crop Insurance Proceeds

Generally, an Article 9 security interest in Federal Crop Insurance Proceeds will only be effective with respect to distributed

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proceeds (7 U.S.C. § 1509). However, this may be too late, given the borrower's circumstances. Accordingly, to effectively take a superior collateral position in crop insurance, in addition to identifying proceeds in an Article 9 financing statement, the lender will want to execute an "Assignment of Indemnity," have the borrower execute the assignment, and then have it approved by the borrower's crop insurance provider. Failure to do so will leave a lender vulnerable to other creditors and potentially the whims or diversions of the borrower.

PACA/PSA

If a lender's borrower is an entity that routinely deals with producers of agricultural or livestock-related products (e.g., a grocery store or a restaurant), the lender should be cognizant of the implications of the Perishable Agricultural Commodities Act (7 U.S.C. §§ 499a et seq.) (PACA) and the Packers and Stockyards Act (7 U.S.C. §§ 181 et seq.) (PSA). PACA provides protection to producers and growers of perishable goods who transfer those perishables to brokers, dealers, and merchants, who in turn sell such goods to purchasers, by mandating the creation of a statutory trust for the benefit of such producers. PSA requires packers and poultry dealers to do the same for unpaid sellers and poultry growers. As beneficiaries of these trusts, producers are entitled to a priority lien position over secured creditors of the seller/broker, provided that certain statutory notice requirements are met by the producer.

As a practical tip, the lender should monitor its borrower's accounts payables, particularly in the context of a struggling and potentially insolvent supermarket, restaurant, or produce wholesaler. If the lender sees payables to entities that may be entitled to priority pursuant to PACA or PSA, it could signal a potential erosion of collateral position or make the lender subject to a potential clawback for payments received.

Silent Liens and Priorities

Under various states' laws, creditors are given liens (and, in some cases, priority liens) in crops, livestock, and/or commodities. For example, in Illinois, a landlord will have a priority lien (of limited duration) on crops over an Article 9 lien without making any official filing. Similarly, in several states, suppliers of goods and services (chemical, fertilizers, feed, fuel, and custom planting/harvesting costs) may have a lien on crops or livestock, provided they comply with any applicable notice and filing requirements. When making a farm loan, the lender will want to understand which state law applies and whether any specific liens apply.

Conclusion

Successfully navigating these potential collateral pitfalls requires a lender to know its borrower's business and financials. It also requires that the lender understand what laws may be at issue at the state and federal levels. Failure to do so will result in potential collateral erosion and frustration if the lender is ultimately required to enforce its security interests. ■

A VIEW FROM THE CAPITOL

Congressman Blaine Luetkemeyer

Missouri's 3rd Congressional District

ESG/INDEX ACT

"Some of the largest corporations in the world are using their influence and boardroom seats to advance progressive priorities at the expense of American jobs."

We continue to see a pattern in our country that I'm sure you, as bankers, are well aware of. Political agendas, specifically climate change, are seeping into areas that have absolutely nothing to do with them. Through the guise of Environmental Social and Corporate Governance (ESG), progressives within the government and corporate America are taking outspoken positions on political and social issues that should have no bearing on business. ESG began as a fabricated metric to illustrate a perceived "enlightenment" that has transformed into a control tactic over corporate America. The parameters for who is "environmentally responsible" and who is not are murky at best. For example, Exxon Mobile received a higher ESG rating than Tesla. Not surprisingly, that rating change occurred when Elon Musk threatened to make public the inner workings of Twitter. No neutral observer could honestly argue that the ratings have anything to do with governance. It's simply about applying political pressure on businesses to declare themselves aligned with the left, often at the expense of serving their customers, paying their workers, and supporting their local economies.

In the House Financial Services Committee, we saw a perfect example of the control some elected officials try to attain through ESG. In a hearing with seven bank CEOs, Congresswoman Rashida Talib demanded that each bank commits no further financing of fossil fuel production. Fortunately, the witnesses understood the real-world effects of that disastrous idea and did not satisfy the Congresswoman's demand. Another even more troubling example is the proposed SEC Climate Rule. The SEC proposes that companies calculate and report the "climate-related risks" associated with their products and operations. That includes the emissions of every supplier and a prediction of the future emissions their products may create after the sale. Publicly traded banks would be charged with filing a disclosure for all their business customers. While that wouldn't directly affect MIBA members, if

Recently former OMB Director Russ Vought said in an interview, "Stopping ESG will take fortitude from Congress and fortitude from states," and he's exactly right.

any of your customers supply anything to a publicly traded company, they will be on the hook for those disclosures. Again, it's a glaring example of regulators completely disregarding the real consequences of their absurd demands.

Unfortunately, it's not just politicians or Twitter warriors demanding ESG commitments. Some of the largest corporations in the world are using their influence and boardroom seats to advance progressive priorities at the expense of American jobs. Even worse, they're doing it with everyday citizens' retirement savings. As you know, retirement plans and pension plans often invest in mutual funds or exchange-traded funds (ETFs). Those funds are comprised of hundreds of businesses whose stock is purchased and held at the fund. However, the individual investors almost never get the chance to exercise the voting rights the shares they own provide. That's because the fund managers, like BlackRock or State Street, are voting on retirees' behalf. They obviously don't ask the retirees their opinions before voting, nor do they want it. They use the votes owned by individual investors to pursue their own agendas.

For example, in a letter to America's CEOs, the CEO of BlackRock, Larry Fink, called on every company to "set short, medium, and long-term targets for greenhouse gas reductions." He makes that demand with an implied threat that if companies do not comply, he'll use the shares he controls (that he didn't buy; retirees and pensioners did) to undermine the companies' leadership. And because the "Big 3" investment advisors — BlackRock, Vanguard, and State Street — are the largest owners in 96% of the S&P 500 companies, they have the power to do it and have shown they are willing.

Before the August district work period, I introduced the Investor Democracy is Expected (INDEX) Act. Simply put, this bill gives individual investors — retirement savers, pension holders, and owners of these index funds — the ability to participate or not participate in shareholder votes. Fund managers would no longer be able to utilize the shares of everyday Americans to steer companies in a direction that satisfies their political desires. Those shares either get voted by the actual owner or don't get voted at all.

Recently former OMB Director Russ Vought said in an interview, "Stopping ESG will take fortitude from Congress and fortitude from states," and he's exactly right. To go even further, it will take fortitude from businesses that believe their mission is to provide a service to their customers, create employment opportunities for their workers, and provide for their families to resist the intimidation tactics so many are experiencing. If businesses focus their efforts on the environment or other priorities, they are certainly well within their right to do that. But it must be their choice — not a mandate forced on them by regulators and activists. ▪

MEET YOUR

MISSOURI BANKER

Name: **Wendy Durham**
Title: **Assistant Branch Manager**
Bank Name: **Farmers & Merchants Bank**

> We are a true community bank, very involved in our schools and organizations.

Where are your main bank and branches located? And what is the market like?
Our main bank is located in St. Clair, MO, with branches in High Ridge, Lonedell and Eureka. The market areas for each branch vary widely in median income, with two being more rural and two mostly urban.

What is something unique about your bank?
Farmers & Merchants Bank has been operating under the same name since 1913.

How did you get started in the banking business?
Well, I have always been good with numbers. However, I was not even looking at banking as a career in the beginning. My family owned a catering company with a private park for about 15 years when we had a catastrophic fire that destroyed our catering hall and kitchen. We were in a spot where we were unable to rebuild, and I was forced to look for a job to help support our family. After multiple interviews where I was told that since I owned a business, I was "overqualified" (for pretty much any "normal" job), I walked into this small community bank that had the friendliest people working there. I asked if I could submit a resume, was directed to an office off the lobby, and was hired as a teller after an impromptu interview with the branch manager. Little did I know I would be adopted into the family that is Farmers & Merchants Bank. As I stated earlier, being good with numbers made it a perfect fit for me, and seven years later, I am still at it.

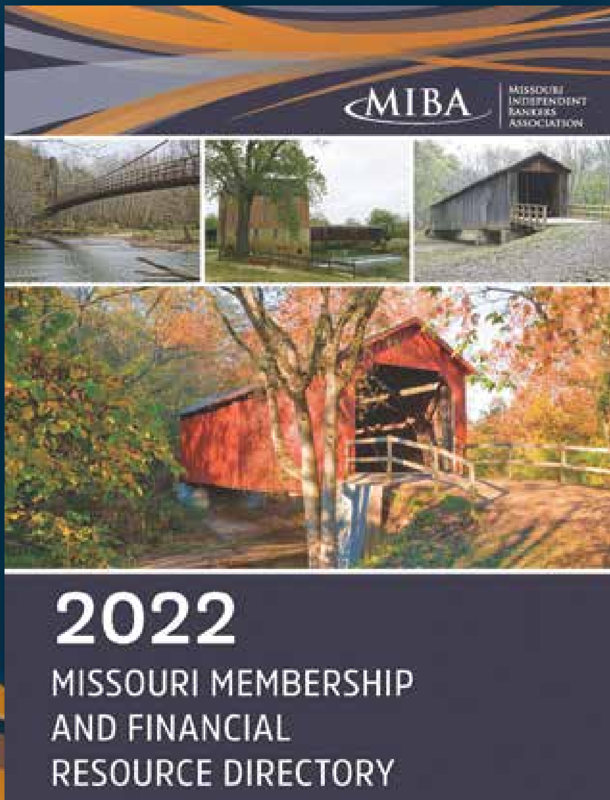
What is the most important thing you've learned from this career so far?
In this career and life in general, never judge a book by its cover because people will always surprise you. You will meet some of the most genuine and eccentric people, and sometimes the people you least expect may be the ones who surprise you the most. We get people from all walks of life in our branches, and if you underestimate someone, they will likely prove you wrong.

Tell us about the Bank's community investment efforts.
This is where FMB stands out from the rest. We are a true community bank, very involved in our schools and organizations. One example is our Mascot Debit Card Program. Implemented in 2013, this program offers customers the option to choose a local school mascot debit card. Through their use of these cards, FMB has donated more than $176,000 to these schools through this program since its inception.

What is the Bank's biggest challenge in internet banking/mobile banking?
Cybersecurity and fraud are two definite challenges in these areas, but the combination of our staff experience, attention to detail and strategic partnerships with our core and outside vendors all play a vital role in ensuring we hit any challenges in these areas head-on. We make it a top priority to keep up with technology in this area. Our Online Banking and Mobile App offer the most up-to-date technology and conveniences out there. We also try to educate our client base as best we can on the various updated incidences of fraud to help mitigate any risk in these areas.

What's your favorite thing about your bank/banking in general?
It is definitely a combination of the customers and the bank family. I say family because being a part of this bank is truly having an extended family. Several of our customers have become like family at this point as well. We celebrate with them, and we mourn with them, and that's what community banking is all about.

If you didn't have a career in banking, what other career would you choose?
I have a strength in hospitality, and I love to bake and cook in general. That being said, probably having my own café or bakery would be a great fit. I would still get to interact with people and become part of their lives, just in a different way than I do now. ▪



MIBA Missouri Independent Bankers Association

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TECHNOLOGY AND GREAT COMPANY CULTURE GO HAND-IN-HAND

By Thomas H. Douglas
JMARK, MIBA Endorsed Partner

Company culture matters. It seems fair to say that's a near-universally accepted truth among business leaders these days. No longer seen as a fringe benefit, secondary to things like salaries and bonus plans, culture has become a key differentiator for many companies over the past decade. It's easy to see why when you recognize that, according to a Deloitte study, 94% of executives and 88% of workers believe strong company culture is key to business success.

But the challenge is not in recognizing the need for a vibrant culture; it's building and nurturing that culture — something that can be especially tricky at a bank, where employees may be spread across multiple locations as well as onto a diverse array of teams and departments, with varying levels of responsibilities and personalities. Not to mention the new complication of engaging remote workers in a cohesive culture with the rest of the company.

So how can these obstacles be overcome? Technology can help. It won't do all the work, of course — after all, culture is, first and foremost, a human concern. However, the right tools can go a long way toward bridging the gaps between people at every level.

At JMARK, we take great pride in our culture. We have been operating with a hybrid workforce for many years and have worked hard to create a united team, even with workers in multiple offices, as well as working from home from all over the country. These are the tenets we follow and the tools we use to create unity and cohesion among our teams, no matter where people work.

1. **Make Communication Easy** — People want to communicate with coworkers with the same ease their cell phones give them in their personal lives. At JMARK, we use Workplace from Meta to give our teams a simple, single access point to chat with both video and voice calls. This solution augments our internal phone system and tools like Outlook, Microsoft Teams, and Zoom, ensuring that employees always have an effortless way to reach one another.
2. **Make Collaboration Easy** — With the right tools and a little practice, virtual collaboration can work every bit as well as in-person. Once again, Workplace is our go-to solution for this, allowing us to share documents and resources and team up via video call as if we were in the same room. Whatever technology you use, the key is to let everyone's voice be heard and skills be shared, so the output becomes greater than the sum of its parts.
3. **Bring Your People Together** — A strong culture isn't just about work. It's about creating bonds of trust and fellowship on your teams. Come together as a company on a regular, frequent basis to celebrate each other, share victories, and let everyone spend some time with folks from other teams. At

“Technology is such a big part of the work we all do every day — and the world we live in — that taking advantage of how it can support and enhance your culture makes perfect sense.”

JMARK, we hold weekly rallies every Friday afternoon, where we celebrate wins, console each other about challenges, honor teammates whose work stood out that week, commemorate anniversaries, and more. This rally takes place in our office, with remote employees joining via Zoom. Everyone in the office can see and hear remote attendees via the video conferencing system in our NOC (network operations center).

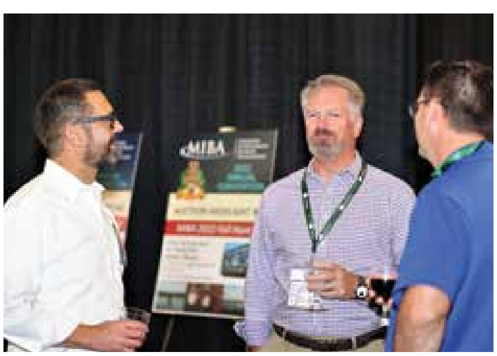
4. **Make Hybrid Meetings Better** — One of the big frustrations of a hybrid workforce is the hybrid conference room meeting, with some people in the same room and others joining via video call. Ensuring that every person can both see and hear everyone else is extremely important. In fact, when JMARK recently moved offices, creating an audiovisual solution to this dilemma for our new conference rooms was at the top of our priority list, and we put our best internal engineers on it. The result was our Engage videoconferencing solution, which we have begun marketing to other organizations. In the end, creating that solution has paid off exponentially as people leave meetings with information rather than frustration and feel connected as teammates rather than disconnected by distance.
5. **Be Transparent** — A great culture is founded on trust. Trust is built on transparency. Share the goals, data, and vision behind policies and initiatives. We've already discussed rallies and meetings as a way to connect with your people; technology offers ways to keep everyone informed between those gatherings. Instead of writing yet another memo, choose mediums that feel less formal and more interactive, such as video — where you'll get a higher open and view rate than a written email. Better yet, embrace the notion of short, live broadcasts to your company when you've got news, inspiration, or insight to share.
6. **Let Your People Lead the Way** — While every healthy company culture begins with the C-suite, the strongest cultures are those in which employees at every level have a hand in creating and nurturing. At JMARK, we formed a group of employees from every level and team to lead the charge in making a unique, enjoyable workplace that represents all our corporate values. This aptly named Culture Crew meets once a month to discuss culture initiatives ranging from charities to support to holiday parties to inclusivity.

Technology is such a big part of the work we all do every day — and the world we live in — that taking advantage of how it can support and enhance your culture makes perfect sense. The right tools can break down distances and barriers to communication and collaboration to bring your people together and create a cohesive, enthusiastic team and a culture that your people will be proud to embrace. ▪

To learn more about JMARK's collaboration solutions for banks, including Engage and Workplace from Meta, visit JMARK.com or call 844-44-JMARK.

MIBA 45th ANNUAL CONVENTION & EXPO

MIBA 45th Annual Convention & Expo was held September 12-14 at The Lodge of Four Seasons in Lake Ozark, Missouri. Attendees enjoyed education sessions, networking and entertainment. A big thanks to our sponsors who made this convention possible. We hope to see you at our next event. For more information, please visit www.miba.net. ▪











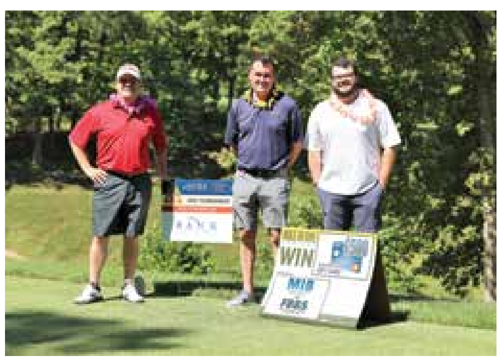








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A BACKGROUND ON
JOE STEWART III – PRESIDENT & CEO BANK STAR

MIBA recently sat down with Joe Stewart to get to know him better. Joe is a MIBA board member and President and CEO of Bank Star. Joe Stewart and his wife, Sheila, have been married for 24 years. They have two children, son J.C. (21) and daughter Avery (18).

Joe has many hobbies, including boating, fishing, flying, skiing, watching sports, cycling, riding motorcycles, and attending live music and sporting events, to name a few. We want to thank him for his time and hope you enjoy getting to know him as much as we did.

Joe Stewart is the President and CEO of Bank Star. He has worked in every capacity in a community bank over the years — from a teller to the CEO. The positions and responsibilities he enjoys the most are the ones with the most direct contact with customers and the community.

He did not intend to be a banker. Joe attended his first two years at Mizzou and then took a summer job that lasted a year and a half in credit and collections. This experience gave him a sense of accomplishment as he worked with customers in good times and bad. "I am confident that if you start your career in collections that it will make you a better lender." Joe reflected.

Following that year and a half hiatus from school, he moved back to St. Louis. He attended St. Louis University for three semesters before finishing up a year later at The University of Missouri St. Louis with a BSBA in Finance Degree. In addition to his undergrad degree, he also completed the Missouri School of Banking, the Madison Graduate School of Banking, and the Masters of Banking program, which was a partnership with LSU and Sheshunoff.

Joe also received the Governance Fellow designation from the NACD (National Association of Corporate Directors) and holds a real estate license from the Missouri Real Estate Commission. He is a licensed pilot and has served on the Sunset Hills Board of Alderman.

Being in the banking industry for 30 years has been a great experience. He remembers when he was one the youngest in the room at conferences and conventions, he joked that is not the case anymore.

Joe is a second-generation banker. His father, Joseph C. Stewart Jr., and his group of investors acquired their first bank in Illinois in 1976 and then acquired several banks in Missouri from 1981-1990.

Looking back, he said that the most rewarding part of his career was when he, and his group of investors, bought out his father and many of the founding shareholders in 2017. It was a challenging process whereby we sold three of the four subsidiary banks, then had a capital raise and conducted a tender offer almost concurrently. This left us with our new shareholder group and a $60MM bank in Pacific called Bank Star. Since then, we have acquired the Bank of

Hillsboro in 2018 and opened our newest branch in Sunset Hills in 2021, pushing our new organization over $180MM.

Joe and his wife have numerous charities that are close to their heart. Their primary focus is to support organizations that benefit children, including the Foundation for Children with Cancer, Make a Wish and The Ronald McDonald House.

When asked about the challenges facing the banking industry, he stated that "Growth is always a challenge. Getting to critical mass to achieve economies of scale is necessary for all banks." He went on to say, "Loan and customer acquisition will be the way that all banks will compete. This will require not only a strong credit culture in the current economic environment but will require finding ways to produce this business more efficiently or profitably through streamlined processes and the use of technology."

As a MIBA board member, Joe talked about the benefits that come with membership, and he said that "First and foremost the advocacy and lobbying efforts of the MIBA to protect and benefit our industry, followed by educational opportunities and of course networking with fellow bankers."

One of the greatest joys of his career was being elected by his fellow bankers in Missouri to represent them on the Board of the Federal Home Loan Bank of Des Moines. Joe was elected three times and had the privilege of serving on the FHLB board for 10 years, serving as Vice-Chair of the Risk Committee, and was involved in the Federal Home Loan Bank of Seattle's merger into the Federal Home Loan Bank of Des Moines.

Joe passed on three pieces of advice to those coming up in the industry:

1. You can't learn the tricks of the trade until you first learn the trade.
2. Get involved in your community. Network, Network, Network.

BANK STAR

3. Do your current assigned duty and responsibility well, and you will be given greater duties and responsibilities.

In conclusion, he said, "I have had an amazing career in an industry that I love. Any success that I have achieved could not have happened without the support of my wife, my family and of course the talented team at Bank Star that I have the great pleasure of working with on a daily basis." ▪

2022 LEADERSHIP DIVISION CONFERENCE

TOP GOLF — ST. LOUIS
AUGUST 4, 2022





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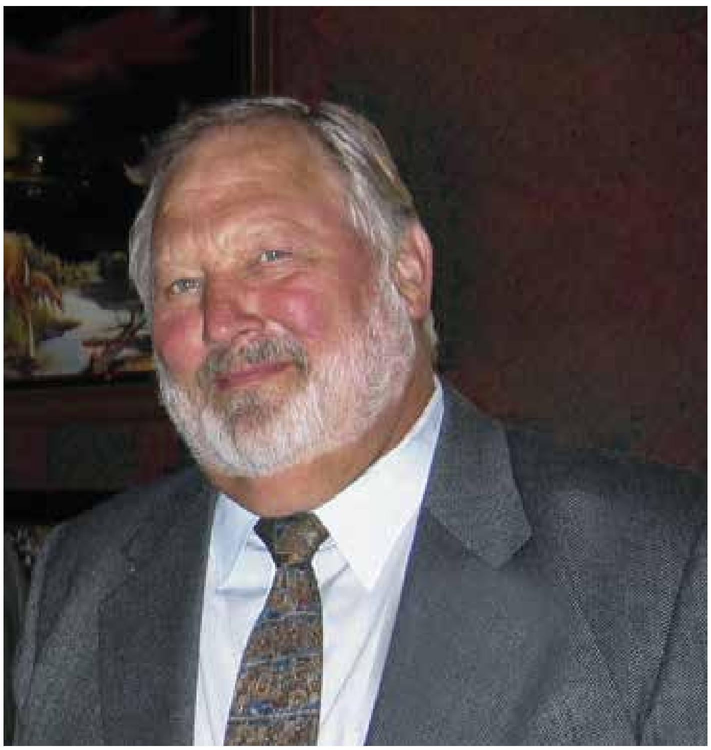
RETIRED MIBA EXECUTIVE PASSES AWAY

A TRIBUTE TO JERRY SAGE

JERRY SAGE, RETIRED EXECUTIVE OF THE MISSOURI INDEPENDENT BANKERS ASSOCIATION, DIED SEPT. 3, 2022.



For over 40 years, Jerry battled to keep community banks open for business, and the responsibility could not have fallen on more prepared shoulders. But before he became the defender of independent banking in Missouri, Jerry gained a tenacity for a different kind of adventure: hunting for the lost treasure of Valverde in the Amazon jungle and on the slopes of the Andes Mountains of Ecuador.

Legend claims the Valverde treasure was named after a Spanish soldier who married an lncan woman. Further, the story says Valverde was ostracized by his countrymen because of his wife. He often complained of poverty until one day, she promised to make him the richest of the Spaniards. That night, she led him by hidden trails through the mountains until they reached a glittering cavern filled with a vast treasure of Incan gold. Just a small portion of the wealth made Valverde immeasurably wealthy.

At his death, Valverde willed the map — showing the location of the treasure — to the king of Spain. Afterward, however, representatives of the king repeatedly failed to find the treasure. Many more treasure hunters also failed, as they were unable to endure the biting cold of the high altitudes of the Andes or they could not penetrate the Amazon jungle.

Jerry Sage was in those mountains in 1967.

His expedition climbed to 16,000 feet above sea level. After more than 40 days in the jungle, natives serving as guides got cold feet. "According to legend, there were cannibalistic Indians guarding the treasure. So, one night our guides decided they weren't going to stay with us anymore," Jerry said. "They got up in the middle of the night, stole our gas stoves and took off. That was the most frightening moment I ever spent in the jungle."

In the cold and wet mountains, it was very hard to build a fire. "We thought we had rice and double smoked bacon. We found what we thought was rice was actually raw peanuts," said Jerry. "Luckily for us, water runs downhill and back toward civilization. The Amazon River wasn't far away. After the bacon, we ate the moss that grew at the base of the trees. It took us 12 days to get out."

Despite his close call, he made more expeditions in search of the lost treasure of Valverde before he was hired as the executive director of MIBA in 1975. There were more than 600 independent community banks in the state at the time. The man who had barely survived the Amazon jungle, but had the grit to return to try again, became responsible for the year-in-year-out fight to keep the number of community banks from dropping.

Becoming a Lobbyist

By the time Jerry Sage became executive director of MIBA — the oldest state independent banker's association in the country — they had been fighting to keep large banks from branching into Missouri since 1958.

The first time Jerry lobbied for the association was in 1975. He did it as a favor for a friend, Gene McFadin, an attorney who had been hired by MIBA as its lobbyist. Jerry remembers that first appearance in the state Senate as a comical one. "Gene was tied up with work from his law firm; he asked me to testify for him in a banking committee meeting.

When preparing his retirement article, one last question put to Sage by the MIBA staff was, "If you could pick your own epitaph, what would it be?" He jokingly said, "The Legend of Noel!"

I remember him saying, 'You don't have to do anything but say the Independent Bankers of Missouri oppose the legislation,'" Jerry recalled. "I remember, when it came my time to speak, I got up on the high dais in front of this committee, and it felt like I was on trial before a tribunal. My voice was so squeaky, and I was so embarrassed; I'll never forget it."

But despite his wobbly start, Jerry Sage soon showed himself as an effective lobbyist. "When there was a statewide branch banking referendum in 1958, a bunch of us old independent bankers hired McFadin and beat it," said Bill Breedlove, a retired banker who, at that time, owned a $1 million bank in Rogersville, Missouri. "After that, Jerry did a great job as McFadin's assistant; I don't know anyone who could've done a better job."

During the 1980s, a number of banks were gradually removed. As large banks began branching into the various towns and cities, the state's community banks faced a dilemma. They had a lending limit of just under $1 million, and when a customer exceeded that limit, the bank would have to participate with a correspondent bank or lose the customer. With large banks moving into the market, community banks had much fewer options for correspondent partners, and any one of the large banks could move into town equipped with customer information from their correspondent business.

Then in 1982, after five years of pushing, MIBA convinced the state legislature to pass a bill sparing community banks from participating in loans with their large bank competitors. "The bill allowed banks to own up to 5% stock in another bank. Independent bankers could now create their own correspondent bank," Jerry said. "And we could form a bankers' bank in Missouri."

Missouri Independent Bank

If MIBA was going to organize a bankers' bank, the venture needed broad support from bankers around the state. MIBA commissioned a feasibility study and began organizing meetings of community bank CEOs across the state. "Jerry was instrumental in getting the study done, in getting the word out and in educating bankers about a bankers' bank," said Cam Fine, president and CEO of the Independent Community Bankers of America. Fine was hired to organize and charter the bank in January 1983. "The first time I met Sage was in April 1984 in Jefferson City, Missouri, at a MIBA board meeting. I was introduced as the brand-new president of Missouri Independent Bank. We were just kids then," he said.

Sage and Fine traveled the state together, enlisting investors for the new bank. By mid-1984, Fine, MIBA and Sage gathered the capital to open the bank. The charter for Missouri Independent Bank was awarded by the commissioner of banking at MIBA's annual meeting in September 1984. In the years that followed, Missouri Independent Bank, now called Midwest Independent Bank, was an important partner to community banks as it competed against larger banks. It was Jerry Sage who helped make community banks possible.

Managing a Successful Association

Over the years, Jerry also proved effective at killing bills in the state legislature that hurt community banks. "Just about every session and just about every year it was a battle," Cam Fine said, "[Jerry] was either blocking something bad or helping something good through. He was very successful beating back legislation that would limit or harm community banks."

Jerry had a strong influence on legislators, said Max Cook, a former president and CEO of the Missouri Bankers Association. Whether Missouri banks were fighting to remove a cap on insufficient funds fees, battling credit union overreach or new burdensome mortgage laws, community banks had an effective advocate in Sage, Cook said. "Jerry and I have been on the same page here in the state for many years, and we have worked jointly on issues for years as well," he said. "The lobbying business is one of building relationships.

Continued on page 26

Continued from page 25

I've had a lot of fun and a lot of great memories. Not a bad way to move into Phase Two with the lady who made it possible, my wife, Judy!

Jerry was one to have influential and meaningful relationships that can gain success. When Jerry walks into a room with elected officials, they like him. He has a kind of magnetism."

"Sage has one of the strongest community banking associations in the country," Fine said. "We have 46 state affiliate associations. We have outstanding execs around the country. I wish all our state execs were like Sage. If they were, community banking would be better served. There is a reason he has done this for 40 years. We broke the mold with Jerry."

"The Legend of Noel"

When preparing his retirement article, one last question put to Sage by the MIBA staff was, "If you could pick your own epitaph, what would it be?" He jokingly said, "The Legend of Noel!" A fairly new association employee named Valerie had never heard the story, and she asked him about it.

Laughingly, Jerry retold the tale of a college-era trip he'd taken with several friends and companions to southwestern Missouri and the little resort town of Noel on Shadow Lake, situated on the Elk River. It seemed the group planned to camp out in a cave in the bluffs overlooking the river and on the old 71 Highway near Noel. As the travelers climbed the bluff above the highway and river to explore the cave and its evening accommodations, one of the ladies climbed a little higher to get a better view and became afraid. Jerry, being the gentleman he was, climbed up and offered her his hand in assistance. However, being the graceful fellow that he was, he subsequently tripped, stumbled, and fell over the edge of the bluff, looking down at 71 Highway some 60 feet below.

At that moment, he spotted a small four-inch oak tree growing a few feet below, and he determined it would be the instrument of his salvation. No such luck. As he grabbed the tree, it pulled away from its roots. Jerry and the tree both ended up in the middle of 71 Highway. At this point, the badly bruised, contused and slightly inebriated body of Jerry Sage was hauled by ambulance to the hospital in Gravette, Arkansas, where medical personnel commenced resuscitation procedures. Several weeks later, Jerry was released from the hospital and began a fairly long and painful convalescence back to semi-normality.

The Rest of the Story

Some 12 years later, Jerry, his friend and their wives returned to Noel on another trip where they intended to float the Elk River. They stayed at a small resort in Noel the night before the trip was to commence, and, the next morning, were collected at the motel by the float service with a pickup truck, trailer and canoes to be taken to the "put in" point on the Elk River at Pineville. Of course, Jerry and his friend sat in the back of the pickup truck on the coolers, and the two ladies joined the driver in the front seat. The driver pulled out of Noel along 71 Highway to north Noel and the bluff site of the Sage Fall from 12-plus years before.

As they approached, the local truck driver informed the girls in the cab that this bluff had particular significance to the locals in Noel in that they called it the site of "The Legend of Noel." He told a story to the girls of the man who had been up on the bluff and lost his footing, falling headlong into the middle of 71 Highway some 60 feet, and had miraculously survived. He told the ladies that he was now known as "The Legend of Noel." The friend of Jerry's wife, not aware of the previous incident years before, asked the driver what happened to the man. Jerry's wife said, "Take a peek in the back of the pickup truck. He's sitting back there eating cold pizza and drinking beer. That's your 'Legend of Noel,' right there!"
Jerry laughed and proclaimed, "I've had a lot of fun and a lot of great memories. Not a bad way to move into Phase Two with the lady who made it possible, my wife, Judy!"

A True Legend

After decades of large bank branching and steadily increasing regulation, Jerry Sage left Missouri independent banking with 310 state-chartered banks. Through his efforts, Missouri independent banks didn't lose the war on branch banking until the Dodd-Frank Act removed the requirement that large banks buy a bank in the state before branching out. "The credit doesn't go to me," Jerry stated. "It goes to the bankers that supported me. Their contribution of time and effort is what made my career possible. I am very appreciative of the opportunities community banking gave to my family over the years."

After he retired, Jerry spent as much time as possible with Judy and at his cabin on the shores of Missouri's Sac River. Missouri bankers remember the man who fought to keep their community banks open for business with the nickname chosen by his friends: they called him Sage. ■

2022-2023 OFFICERS

Matthew S. Ruge, Executive Director of the Missouri Independent Bankers Association, the state's premier banking association, exclusively representing over 150 independently-owned community banks statewide, announced the election of the group's new officers for the 2022-2023 term of office:

Chairman of the Board:
Paul Hill
Community State Bank of Missouri
Bowling Green, Missouri

President:
Tyler Bender
Midwest Regional Bank
Festus, Missouri

President-Elect:
Mark Laune
Peoples Savings Bank
Hermann, Missouri

Vice President:
Doug Fish
BTC Bank
Bethany, Missouri

Secretary-Treasurer:
Curt Brumley
Community Point Bank
Russellville, Missouri

The Association's elections were held at its 45th Annual Convention, Sept. 12–14, 2022, at The Lodge of Four Seasons, Lake Ozark, Missouri. The Missouri Independent Bankers Association, which exclusively represents the interests of Missouri's independently owned community financial institutions, was the first state independent bankers association to be formed in the country and was chartered in 1959. The association serves community banks throughout Missouri, providing legislative representation, education and seminar programs, and other services designed exclusively for community banks. ▪

NINETY YEARS OF THE FHLBANKS: A THOUGHT FOR EACH DECADE

By Justin St. Pierre, Peoples Bank & Trust Co.

This year marks the 90th anniversary of the Federal Home Loan Bank System. We here at Peoples Bank & Trust would like to congratulate FHLB Des Moines as they enter their next decade of reliable partnerships with community banks. In honor of this milestone, I'd like to offer nine benefits we value in FHLB Des Moines, one for each decade of their anniversary.

1. **FHLB Des Moines keeps community banks in their community.**
   FHLB Des Moines makes it easier for us to stay in our local market so we can give back to our community in the ways we are best able and are most needed. As with many community banks, Peoples Bank & Trust is often one of the first stops when a local organization or event is looking for volunteers, financial support or even a new board member. We are proud to be involved and are committed to staying connected to our communities.

2. **The Bank System works exactly the way it was designed.**
   Our partnership with FHLB Des Moines looks a little different now than it did a couple of years ago, and it will more than likely evolve over the next few years. This is how the FHLBank system is designed — its scalable model allows for expansion and contraction based on the needs of its members.

3. **Access to an unwavering availability of liquidity gives me peace of mind.**
   I review the FHLB Des Moines funding profile regularly. Knowing access to liquidity is a click away provides a level of security regarding lending to our customers. We would have to evaluate our lending policy if access to FHLB funding wasn't an option.

4. **We value access to the secondary market amid a very active housing market.**
   We actively utilize the MPF Traditional product — a unique mortgage product in which we share credit risk with FHLB Des Moines. By sharing risk, Peoples Bank receives benefits we can't find with other investors, including better pricing and waived Loan Level Pricing Adjustments. More importantly, our customers have greater access to fixed-rate home loans at a better rate.

5. **The Affordable Housing Program helps us keep families and seniors in their homes.**
   The cost of homeownership can sometimes be too much for families and seniors. Delayed repairs threaten the families living in the homes as well as the community's stability. When repairs are simply too much to do on a fixed income or after other financial setbacks, FHLB Des Moines was there. The AHP grant awards are provided as part of their community investment products, at no cost to us as members, to the community housing sponsors, or to the families and seniors receiving the home improvements.

   While the MPF Program provides opportunities to achieve homeownership, the Affordable Housing Program (AHP) keeps people in their homes. The Affordable Housing Program provided Peoples Bank & Trust and our community housing partners with grant dollars to support families and seniors in making much needed improvements to their homes. Peoples Bank & Trust is honored to have been a part of keeping families and seniors in their homes.

6. **Peoples Bank and FHLB Des Moines are aligned in our objective to support the local community.**
   For many years, Peoples Bank & Trust has strongly supported the Bread for Life Food Pantry with cash donations, food drives held at the bank's facility, and volunteer efforts. In 2019, we were awarded a $15,000 Strong Communities Award through FHLB Des Moines to ensure the availability of nutritious food in the community. Bread for Life also provides donations to the school district's Buddy Bags Program, which gives supplemental food to kids for weekends or over extended breaks from school.

7. **Phil gave me his cell phone number and answers when I call.**
   Jokes aside, the FHLB Des Moines team is part of my team. When I have questions or need to figure out a process, I can call and get answers quickly.

8. **I believe there would be fewer community banks today without FHLB Des Moines.**
   Many community lenders would find it difficult to survive without access to their FHLBank. Competing for resources nationally may force smaller, local banks to merge or be acquired by larger, regional banks, removing the impact of lending, investment activity and community involvement that needs to be felt locally.

9. **Take a moment and celebrate the Federal Home Loan Bank of Des Moines.**
   I'd like to celebrate the critical role FHLB Des Moines plays in the nation's financial infrastructure. Without access to the Federal Home Loan Bank of Des Moines, Peoples Bank & Trust would not be as adept at customer satisfaction and service, a key advantage benefiting all FHLB members. Their ability to remain viable in all economic cycles plays a major role in our ability to take care of our customers and community. ▪

The Affordable Housing Program provided Peoples Bank & Trust and our community housing partners with grant dollars to support families and seniors in making much needed improvements to their homes.

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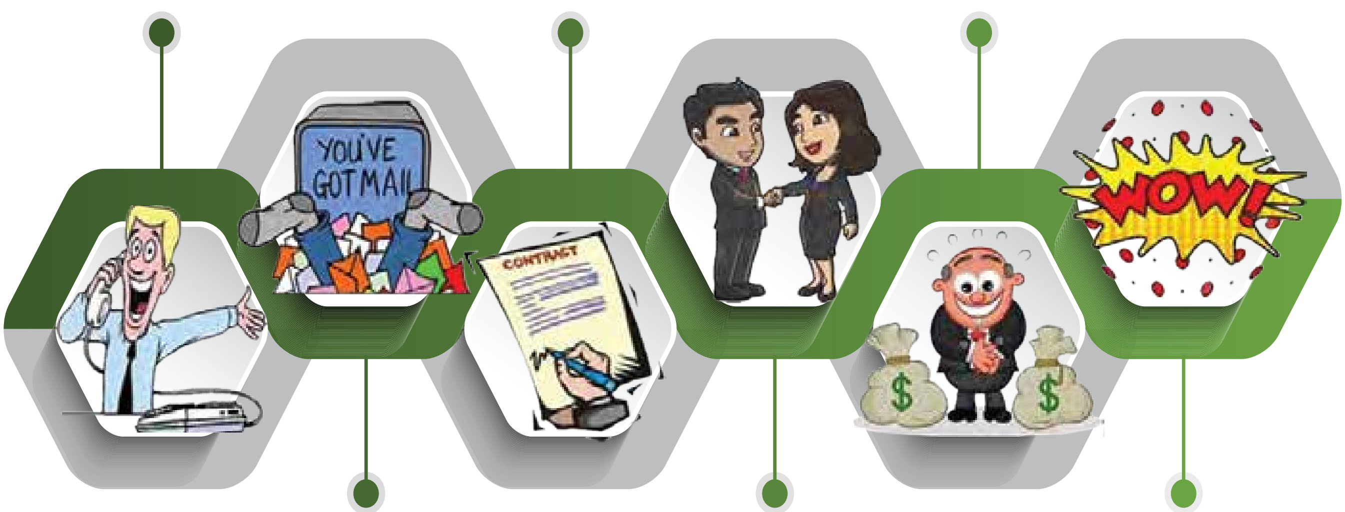

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rickg@chippewavalleybank.com
ryang@chippewavalleybank.com

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2022 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
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- Bank of St. Elizabeth
- Blue Ridge Bank & Trust, Independence
- BTC Bank, Bethany
- Citizens Bank, New Haven
- Community Bank of Pleasant Hill
- Community Bank of Raymore
- Community State Bank of Bowling Green
- Exchange Bank of Missouri, Fayette
- farmbank, Green City
- Farmers & Merchants Bank, St. Clair
- FCNB Bank, Steelville
- First Independent Bank, Aurora
- Jonesburg State Bank
- Metz Banking Company, Nevada
- Midwest Independent BankersBank, Jefferson City
- Midwest Regional Bank, Festus
- New Frontier Bank, St. Charles
- Northeast Missouri State Bank, Kirksville
- Peoples Bank & Trust Co., Troy
- Peoples Bank of Altenburg
- Peoples Bank of Wyaconda
- Peoples Savings Bank, Hermann
- Preferred Bank, Rothville
- Regional Missouri Bank, Marceline
- Security Bank of the Ozarks, Eminence
- Sherwood Community Bank, Creighton
- The Bank of Missouri, Perryville
- The Bank of Salem
- The Missouri Bank, Warrenton
- Tipton Latham Bank
- Town & Country Bank, Salem

PLATINUM LEVEL
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- Bank 21, Blue Springs

GOLD LEVEL
$400-$749

- Commercial Bank, St. Louis
- Community Point Bank, Russellville
- Legends Bank, Jefferson City
- Security Bank of Pulaski, Waynesville

SILVER LEVEL
$200-$399

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- Callaway Bank, Fulton
- Chillicothe State Bank
- Farmers State Bank
- Silex Banking Company
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- Carl Blochberger, Tipton
- Sue Ann Loesch, Jefferson City
- H.E. Blankenship, California
- Bobby Schatzer, Latham
- Lori Woratzeck, California
- Calen Bestgen, Tipton
- David Johansen, Syracuse
- Karen, Messerli, California

BHG:
CREDIT MODEL WORTH A BILLION

Recently, a milestone was reached for the largest community bank network in the country: BHG Financial bank partners officially reached a combined $1 billion in interest income earned since the firm's inception in 2001.

Bolstered by the strength of its models, BHG Financial specializes in the power of data, analytics, and cutting-edge technology to deliver the highest-performing loans to banks across the country. With the firm's unmatched insight into a borrower's ability to pay, BHG has originated more than $12 billion in loan solutions to top-quality borrowers, which community and midsize banks can access through a state-of-the-art loan delivery platform, the BHG Loan Hub.

And that's not all. Along the way, the average daily sales volume on the BHG Loan Hub rose by 24%. Bank members joining BHG increased 40% from 2020 to 2021, and for the fifth consecutive year, at least one bank from every bank class year since the company's inception in 2001 bought from BHG again. Moreover, from the start of the COVID-19 pandemic in March 2020, more than a fifth of U.S. banks have added a BHG Financial loan to their balance sheet. ▪

For more information, contact them at bhgfinancial.com.

DATES AND EVENTS

MIBA

OCTOBER

TUES., OCT. 4 *10:00-11:30 AM*
Chapter 7 & 13 Consumer Bankruptcies: Special Rules, Cramdowns & Risks

WED., OCT. 5 *2:00-3:30 PM*
Reg E & the Electronic Fund Transfer Act

OCT. 5-7
13th Annual Security Conference

THURS., OCT. 06 *2:00-3:30 PM*
Are Safe Deposit Boxes on the Way Out?

TUES., OCT. 11 *2:00-3:30 PM*
Call Report Loan Classifications

WED., OCT. 12 *2:00-3:30 PM*
Images, Video, Audio: What's New & Next for Social Media Platforms?

THURS., OCT. 13 *2:00-3:30 PM*
Preparing for Examination Under the Mortgage Servicing Rules

OCT. 18
FDIC Directors College

TUES., OCT. 18 *10:00-11:30 AM*
Traditional & Roth IRA Part 2: Distributions, Taxation, Withholding & Penalties

TUES., OCT. 18 *2:00-3:30 PM*
New Guidance on Overdraft Fees & Defenses Against Class Action Lawsuits

WED., OCT. 19 *10:00-11:00 AM*
Handling Reg E Disputes Confidently & Compliantly

THURS., OCT 20 *2:00-3:30 PM*
New Proposed Regulatory Policy on CRE Loan Accommodations & Workouts

TUES., OCT. 25 *10:00-11:30 AM*
Handling Court-Ordered Accounts: Estates, Guardianships, Conservatorships & Bankruptcy

WED., OCT. 26 *2:00-3:30 PM*
Ability to Repay: Qualified

THURS., OCT. 27 *2:00-3:30 PM*
Robbery Basics & Beyond

NOVEMBER

FRI., NOV. 11
Universal Banker-Certification Course

WED.-THURS., NOV. 16-17
Women In Community Banking Conference

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Price Pullback Prospects

Availability of Discount Bonds Causes a Rethink of Strategies

By Jim Reber

ICBA Securities

Over the years, I've learned a few things about human nature as it relates to bond portfolio management. Some of these notions or biases in the minds of investors are more logical than others. For example, it seems community bankers take some pride in owning a collection of bonds whose price has risen since purchase. An unrealized gain is much preferred over an unrealized loss in the minds of a lot of seasoned portfolio managers, investment committees and boards. This is in spite of the fact that the gain is the residue of rates falling since purchase. The natural consequence is that the overall portfolio's yields are on the way down, and I haven't met many people hoping for lower bond returns.

A great paradox is that many of these same bankers prefer to buy bonds whose prices are less than 100 cents on the dollar, rather than at premiums. In some cases, they'll opt for discount bonds even if they have lower yields to maturity. I think they get satisfaction out of knowing they're better off than the poor suckers who originally paid par or more for the same investment.

In that community banking is a cyclical industry, and its earnings have some correlation to market interest rates, there are periods in which certain strategies are in play and others are not. An environment in which rates are high and rising, such as 2022, will produce bonds whose prices are below par. Like it or not, discounts are the story of the day, so let's review how discount-priced bonds can be used strategically to improve portfolio performance.

Agency options

The simplest investment sector to analyze is government agencies. These bonds are issued by some of your favorites, such as Fannie Mae, Freddie Mac and the Federal Home Loan Bank. These do not have periodic principal repayments, so your original investment remains intact until maturity date. That is, unless it has a call feature, which is present in about 88% of outstanding issues. For these bonds, the borrower can decide to "call" or prepay the debt early, and on designated dates.

If a given bond is purchased in the secondary market at a price below 100, and the issuer later calls the bond early, the investor's yield to call is higher than yield to maturity. This yield improvement can be dramatic if the callable is owned at a deep discount. Of course, the investor doesn't

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expect the call ever to be exercised, so it’s a pleasant surprise to see the yield jump. These discount callables are typically priced to the worst case (i.e., maturity) to yield slightly more than non-callable bonds (i.e., bullets).

Mortgage maneuvers

Mortgage-backed securities (MBS) remain popular as community bank investments. The majority of the dollars in all bank portfolios are in some type of MBS. And it is a deep and liquid (and growing) market, so supplies are plentiful for a given investor to shop around.

The cash flows of an MBS are mostly predicated on how much prepayment (not repayment) is received each month. There is a direct link between prepayment activity and the borrowers’ rates (in MBS parlance, “Gross WACs”) of a given pool, so investors can (within limits) create a predictable risk/reward profile. And have I mentioned that MBS are currently available at discounts?

Buying below-market coupons means two things in the near term. First, your monthly cash flows will be limited, and that may be fine for your bank’s needs. Secondly, the market price has room to improve, up to and beyond par, if rates begin to fall. For example, a 15-year MBS with a 2.00% coupon is currently priced around 94 cents on the dollar, and was worth around 102 at the start of 2022. Since the borrowers’ rates on these pools will be well below 3%, there is no financial incentive to prepay the loans early, so average lives will be quite long in the near future.

Offset to falling rates

Maybe the biggest benefit to owning bonds at prices less than 100 is that their returns will be inversely related to general market rates. When interest rates fall, the “optionality” comes “in-the-money,” and some bonds get called away. To the extent they’re owned at discounts, their yield-to-call is enhanced. This is true for all bonds: agencies, MBS and even munis at discounts.

Further, since most all community banks have interest rate risk profiles built for rising rates, investments that out-perform as rates fall can help offset the margin compression likely to occur. Perhaps best of all, discount bonds’ yields will automatically (magically?) increase as interest rates decline, without the need to sell the investments.

All told, owning bonds at prices less than par can help bring stability to the cash flows while lessening exposure to falling rates. It can also feed the needs, however subliminal, to get a bargain price while improving future chances for unrealized gains. Paradoxical? I’d call it logical. ▪

Balance sheet webinar series continues: ICBA Securities and its exclusive broker Stifel Financial resumes the 2022 Community Banking Matters webinar series on Sept. 13 at 10 a.m. Central. The topic is “Municipal Market Update: Investment Strategies and Credit.” To register, visit icbasecurities.com.

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AGENDA

Wednesday, 19th
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Thursday, 20th
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Seminar 8:30 am
Lunch 12:00 pm
Adjourn 4:00 pm
Dinner 7:00 pm

Friday, 21st
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Seminar 8:30 am
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David Rosenberg — *President/Chief Economist & Strategist*
Rosenberg Research & Associates Inc.

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