OFFICIAL PUBLICATION OF THE COMMUNITY BANKERS ASSOCIATION OF ILLINOIS

Banknotes

September 2022
Volume 48 • Issue 5

40 years ANNIVERSARY

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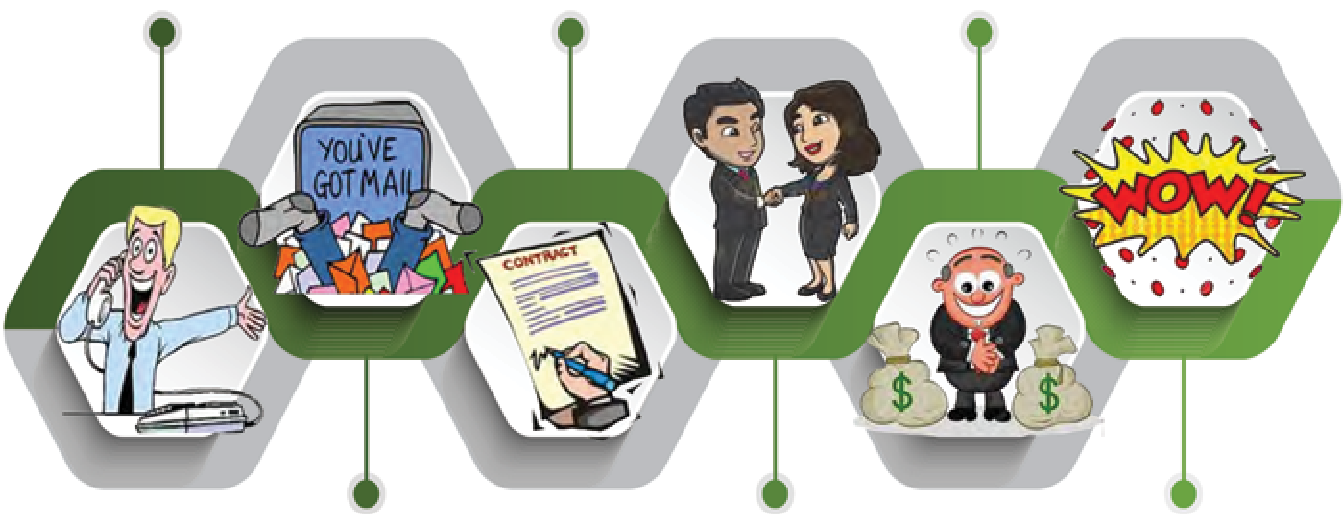

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PUBLISHED FOR
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CBSC:

Reflecting on Four Decades of Service to Community Banks

Mike Kelley, CBSC President

Early in 1981, the Independent Community Bankers of Illinois (ICBI), as Community Bankers Association of Illinois (CBAI) was known at the time, established the Future Planning Committee to analyze potential services for member banks. Later in the year, the ICBI Board approved the committee's slate of services and vendor recommendations. Its recommendations also included the formation of a separate corporation to provide special member services while retaining the ICBI not-for-profit status.

A SERVICE CORPORATION IS FORMED, FOUNDATIONAL PROGRAMS ESTABLISHED

The ICBI Services Corporation was incorporated in early 1982, enabling member bankers to save money via group purchasing discounts, gain improved access to essential bank services, and increase their confidence knowing the vendors had been thoroughly vetted by their banking peers. Among the early offerings was a discount program on Brandt currency equipment provided by Welch Systems, now Data Business Equipment, Inc. In 1984, Brandt and Welch distributed approximately $50,000 to 150 member banks, or an average of $333 per bank, which more than paid their ICBI membership dues. Data Business Equipment is CBSC's longest-standing partnership spanning 40 years.

"Partnering with CBAI is one of the proudest achievements in our company's history. Welch Systems Inc., now Data Business Equipment, built our brand on the commitment to serve community financial institutions, which is directly tied to the origination of our CBAI partnership. I cannot overstate how much Data Business Equipment values our relationship with CBAI and all its member banks. We are proud of what we have accomplished together since 1982 and can't wait to see what we achieve over the next 40 years." — Jeff Radtke, EVP, Data Business Equipment, Inc.

In 1983, ICBI Services Corporation partnered with James Baker & Associates, now The Baker Group, to promote its

Continued on next page...

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asset-liability management software program. At the time, asset-liability management techniques were used primarily by the nation's largest banks. Dr. Baker wrote the book on community bank asset-liability management and converted his principles into a software program that was accessible for community banks of all sizes.

In late 1987, ICBI members approved a name change to enhance the organization's identity among the public and the banking profession. ICBI became CBAI. In addition, ICBI Service Corporation became Community BancService Corporation, Inc (CBSC).

By 1988, the CBAI/Baker partnership expanded to include bond portfolio management and securities selection and execution. In 1997, Baker opened an office within the CBAI Headquarters to respond to its growing client base. Two Baker associates, Terry McElwee and Eric Harland, opened the Springfield office to offer asset-liability management and securities services to more than 100 CBAI member banks. Today, the Springfield office houses seven full-time staff members serving nearly 200 community banks.

In 1988, CBSC forged a partnership with the John Harland Company, now known as Vericast, to provide check printing products at a discount. Today, Vericast is a premier marketing solutions company that influences consumer decisions on the selection of financial products and providers.

Later in 1988, CBSC partnered with Bankers' Systems, now known as Wolters Kluwer FS, to offer loan and compliance forms. Today, Wolters Kluwer provides a broad range of services and solutions to help banks meet their complex and ever-changing compliance and regulatory obligations.

What started as just four important relationships during the early years of CBSC has grown to now include 26 preferred service providers that have been meticulously vetted by the CBSC Board and staff and verified as firms that represent genuine and valuable member benefits.

CBSC PIONEERS NEW SERVICES

In 1997, CBSC guided the construction of an electronic gateway between Community Bankers Online (CBOL), a dial-up communications network, and the Illinois Secretary of State's computer that permitted authorized CBAI members to conduct free searches of UCC and corporate filing information. For the next two years, more than 300 member banks regularly visited the site. As technology advanced, CBOL migrated to the internet.

That same year, the CBSC Board of Directors approved a partnership with FundsXpress, the first online banking and bill payment service focused exclusively on serving community-based financial institutions.

In the late 1990s, the use of debit cards began growing at an exponential rate. With an estimated annual growth rate of 23%, debit cards were the fastest growing type of electronic payment and were

projected to surpass check and credit card transactions in just a few years.

Meanwhile, the CBSC Board became concerned that massive consolidation within the electronic funds transfer (EFT) industry could result in community banks losing control over the ATM and debit systems. The few remaining big bank-owned networks could restrict small banks' access to new services and impose unreasonable and anti-competitive pricing schedules.

In April 2000, the CBSC Board partnered with SHAZAM, whose mission, ownership and leadership structure resembled its own operation. Owned by its client community-based financial institutions, SHAZAM is not likely to be sold. Their payments expertise and guidance would prove invaluable as rapid and radical changes to the payments system were about to create new opportunities as well as pose serious threats to community banks.

ADVANCEMENTS IN PAYMENTS POSE AN EXISTENTIAL THREAT

The last 20 years have seen an incredible change in the payments landscape, driven by technological advancements, consumer desire for convenience and governmental regulations.

In 1995, Netscape created the Secure Socket Layer (SSL) encryption, which made it safer to conduct financial transactions on the World Wide Web. As business started to move online, payments soon followed. PayPal, Google and Amazon were founded thereafter. By early 2000, CBSC partner FundsXpress, now Apiture, was providing online banking services to nearly 50 CBAI member banks.

The arrival of the smartphone in 2007 meant that people had the ability to purchase online directly from their pockets without a personal computer. This quickly led to huge developments in mobile payment technology and the creation of peer-to-peer payment systems such as Venmo and Square.

In 2011, JP Morgan Chase, Wells Fargo and Bank of America launched clearXchange, a P2P service that enabled registered customers of those three banks to send money to one another. In 2016, clearXchange was sold to Early Warning Systems, which expanded ownership to include seven of the largest banks in the country. A year later, Early Warning released the Zelle Payment System and mobile app, which replaced clearXchange. That same year, The Clearinghouse, which is owned by the nation's largest banks, launched its Real-Time Payments (RTP) network, the first new payments system in 40 years that delivered instant payment settlement for a variety of use cases.

Concerned that a new faster payments system owned and controlled exclusively by the nation's largest banks posed an existential threat to the future of community banking, the CBSC Board formed the Payments Task Force in 2017 to "explore matters related to payments security and advise association leadership on positions and actions to help ensure community banks have non-discriminatory access to the evolving payments system."

After meeting with officials from NACHA, Zelle, The Clearinghouse, SHAZAM, ICBA, the Federal Reserve Bank and Fiserv, the task force concluded that CBAI should encourage the Fed to actively take a role as an operator in faster payments, like its role in ACH.

The committee, led by its chairman, Mark Field, president and chairman of Liberty Bank, launched a campaign to convince the Fed to create an instant payments settlement network that offered banks an impartial alternative to The Clearinghouse and RTP. The campaign included meeting with bankers at forums, conventions and wherever they gathered. The committee members attended informational forums hosted by the Fed in Illinois, Missouri and Iowa, and they sent letters to the Fed's Board of Governors, elected officials and bank regulators describing the long-term threats to community banks and the communities they serve posed by having only a mega-bank-owned, real-time settlement solution available.

On August 5, 2019, The Fed announced it would "develop a new round-the-clock, real-time payment and settlement service called FedNow to support faster payments in the United States."

"The Fed can reach every bank in the nation, and they will not discriminate," said Mark Field, committee chairman. He added, "FedNow will ensure that all

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banks, regardless of size or location, will have equal access to faster payment settlement services. FedNow is certainly no panacea for banks, however. One obvious problem that we tried to get the Fed to address earlier this year is that their pricing does not provide for any pass-through revenue to the 'paying bank' in a request-for-payment (RFP) transaction through FedNow. This will have the effect of providing merchants with an immediate payment guarantee, similar to a card transaction, but the bank receives absolutely nothing in return. This is an ongoing problem," Field concluded.

Terry Dooley, SHAZAM executive vice president and a member of the CBSC Payments Taskforce, added, "Now, the task force should become involved in shaping decisions regarding the management of directories, pricing and access. We must ensure that community banks have fair and affordable access to the new service and prevent non-banks from accessing the service directly from The Fed, by-passing banks."

Meanwhile, the explosive growth of cryptocurrencies, digital assets and The Fed's inclination to support the development of a central bank digital currency (CBDC) threaten to disintermediate community banks from its core deposit base, which will reduce liquidity and lendable funds in the communities they serve. The Payments Committee, now a permanent standing committee, has been working to increase banker, congressional and bank regulator awareness of the new threats posed by digital currencies.

"There is only one way in which the introduction of a CBDC will not decimate the current economic engine of private banks and the Fed working together, a system that has taken this country 246 years to perfect, and that is to limit a CBDC to be just a simple electronic representation of our current fiat currency. They must use the same distribution system as we use for currency today, with only real banks 'minting and redeeming' the digital cash for folks as they need it," explained Committee Chairman Field. "Anything beyond that, particularly if the Fed turns its back on banks and goes directly to the consumer, will destroy our industry."

Though there is still work to be done, the creation of the Payments Committee has been an invaluable addition under the CBSC umbrella.

NOT ALL FINTECHS ARE THE ENEMY

Financial technology companies or "fintechs" have been around for a long, long time. The evolution of communication devices such as the telegraph helped transfer financial information across borders. The development of Fedwire in 1919 paved the way for the first-ever electronic funds transfer system. A century later, the term "fintech" has evolved to refer to maverick start-ups that leverage superior technology to challenge traditional banks in lending and the provision of financial services.

Many of the fintech disrupters quickly discovered that regulatory and structural considerations meant fintechs were still dependent on banks for key functions. For example, only banks may offer FDIC-insured deposit accounts. Access to the traditional payments systems and card networks is generally limited to banks. Most fintechs were unprepared to comply with the required regulatory disclosures and consumer protection laws imposed on banking transactions. Banks are experts at complying with these regulatory burdens. Fintech ownership of banks is prohibited by law. As a result, fintechs have sought to offer services by partnering with banks.

Recognizing that the explosive growth of fintechs placed community banks in the digital firing line, the CBSC Board of Directors formed the Innovation Committee in August 2021 and tasked it with evaluating the fintech world and advising the board on issues, trends, policy and education, as well as recommending prospective fintech partners.

The committee, led by Andy Tinberg, senior executive vice president and chief banking officer at CNB Bank & Trust, N.A., Carlinville (Oak Forest), immersed itself in the fintech world and discovered that despite inherent threats, community bank-friendly fintechs can be powerful allies in delivering digital bank services, operational efficiencies and improved security.

In March 2022, the committee attended the Independent Community Bankers Association (ICBA) ThinkTECH Accelerator Program in Little Rock, Arkansas. Last year, the Venture Center, ICBA's partner in the Accelerator, vetted more than 400 fintechs before selecting 11 to participate in the 2022 cohort.

Over the course of three days, the committee met with the 11 fintechs that provided IT security, digital consumer lending, digital commercial deposit account opening, big data management, crypto investing and middleware solutions that enable banks to interface with its core more quickly and at a reduced cost. Additionally, the committee met with officials and investors in BankTech Ventures (BTV), a venture capital firm that has invested in several proven fintechs that are popular with community banks.

Committee members quickly recognized that community bank investors in the BTV fund would gain early access to a vetted network of leading and emerging technology solutions tailored to address community banks' needs and potentially earn a return on their success. Upon its return, the committee met with the CBAI Board and gained its approval to back the BTV and create a special purpose vehicle (SPV) designed to enable member institutions and accredited individual investors to invest in the BTV at a lesser dollar amount.

In eight short weeks, the SPV generated $500,000 from 15 investors and an additional $2.6 million in direct BTV investments. A combined 25 investors invested more than $3.1 million into the BTV. Investors are already gaining exclusive early access to vetted fintechs that are seeking capital, and each investor bank can opine on the value the prospective fintech would deliver to its bank.

Innovation has been described as a culture, not a product or task. You can't just decide that we need to innovate, hold a staff meeting, and magically, it's done. Innovation and creativity lead to risk-taking. Successful innovation requires hard work and sacrifice. For example, community bankers who adopt new and emerging technology hope to be first to market with all the competitive benefits of being first. It also means the bank may help build the airplane while it flies. Fasten your seatbelt; there will be turbulence. Implementing new, leading-edge technology often comes with challenges. Aligning people and processes with technology and overcoming compatibility issues with legacy systems, policies and procedures can be frustrating. In response, CBSC has formed user groups to create a forum to share challenges, solutions and best practices.

FRICTIONLESS BANKING IS IMPORTANT, PASSION IS CRITICAL

For the past 40 years, new technology has threatened to disintermediate community banks from their customers. History has proven just the opposite is true. Technology is a useful tool, but it cannot replace bankers' passion to serve their customers and community. You don't have to think back farther than PPP when many community bankers worked 24-hour shifts to help applicants secure funding. Many weren't your customers. They were simply people in need, and you helped them. Your passion is contagious. It motivates us every day.

"CBSC's mission has not changed from where it began 40 years ago. But, as the world of community banking changes, CBSC must also continue to progress and move forward, as well, just like our community bank members. From four key partnerships that were the cornerstone of CBSC at its beginning that are still relevant today, CBSC has evolved to include a 35-member board, 26 preferred providers, a six-person staff that includes three calling officers and two critical committees focused on payments and innovation. And, we are excited to see what the future will bring," said Doug Parrott, CBSC committee chair and president/CEO, State Bank of Toulon.

Happy Anniversary, CBSC! ■

Community Bancservice Corporation, Inc.

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DID YOU KNOW?

43% of all data breaches involve small and medium-sized businesses.

Source: Forbes

Eight-eight percent of data breaches are caused by an employee's mistake, researchers from Stanford University found. Balancing technical and social elements of an organization can address the most significant cybersecurity vulnerability: people.

Security awareness is crucial, and it must be integrated into everything a company does. Still, the harsh reality of cybersecurity awareness is that security culture has not been able to keep up with the threat landscape. When people are left with the responsibility of their own devices, do they make the right decision when faced with a malicious link? Well, let's see.

What Is Security Awareness Training, and Why Do You Need It?

Cybersecurity awareness training is a form of education that security and IT professionals use to mitigate employee risk. Practical security awareness training causes employees to feel accountable for their actions and understand the security risks associated with their efforts in identifying cyberattacks. Lessons and programs help employees and users understand their role in their company's security plan to help combat malicious activity.

In 2021, data breaches cost on average $4.24 million, a 10% rise from 2020, according to IBM's 2021 Data Breach Report. These costs can cause many organizations to fold. As a company, you are responsible for equipping your employees as your first line of defense by setting them up for success. Next are a few ways to build a productive and proactive security culture for your employees and organization.

Ways to Build a Culture Focused on Security:

1. Security Belongs to Every Department

Cybersecurity has evolved and become an essential part of your organization. Security belongs to every employee regardless of department. All parties are accountable and actively contribute to the organization's security culture. This can be achieved by equipping each person with security basics and the knowledge to judge threats.

Cybersecurity awareness is an ongoing activity, while training is a proactive action that needs to be taken on behalf of your organization. Grow your security culture by having teachable moments through mock threat campaigns, training and teachings using real-world examples. After employees have been provided with the proper awareness and knowledge, then comes accountability.

2. Recognize and Reward Employees for Their Security Efforts

Actively seek out opportunities to celebrate employee success. When an employee completes mandatory cybersecurity awareness training, give them something in return. A simple reward or gift card motivates people to get their training done and will cause them to remember the cybersecurity lesson that gave them $50 to their favorite retail store. When the goal is to proactively defend your employees from falling victim to cyber schemes, the return on investment outweighs the cost of the reward.

The other side of a sustainable reward is career growth for team members in dedicated security roles. This

Continued on next page...

will motivate your team to remain dedicated to your organization's values and overall mission, which will protect your brand reputation and security protocol. If cybersecurity is necessary for your company culture, prove it by providing your security professionals with good and long-standing growth opportunities.

3. Implement a Proactive Defense Program

Practical cybersecurity awareness training emphasizes engaging your employees to reduce user risk. It is best to implement a robust training program that doesn't just deliver a one-off session that overwhelms employees with information that they will soon forget until the next training. For training information to become salient, it needs to be persistent and delivered in small doses (quarterly is suggested) to fit every employee's busy plate.

Proactive defense programs use real-life de-weaponized attack campaigns to test employees, including phony email phishing attacks. They also implement training to ensure your organization complies with set policies and industry regulations, as well as track and continue to train high-risk users who fail attack campaigns. According to the Foundry Security Priority Report, 62% of organizations have planned to outsource some of their security functions over 2022; with employee awareness training being a top reason, third-party options are considered the most cost-effective solutions.

How to Play Your Part:

The type of culture that you build at your organization directly impacts your success. If security is not a part of that culture, it will likely fail. The suggestions above are just the beginning — there's so much more to securing your organization, but this is a great place to start. After all, wouldn't you rather be proactive instead of reactive? ■

Adlumin, Inc. is a CBSC Preferred Provider of cyber and network security.

The Rise of the Super App — WHAT COMMUNITY BANKS CAN DO ABOUT IT

Tina Giorgio, President and CEO, ICBA Bancard

Everyone, including big tech and social media players, want a super app. That's according to a 2022 Accenture Banking report, which underscores that the threat is real. The super app concept — a single user interface to house everything from shopping and transportation to bill pay and banking — provides an attractive consumer experience and an alternative to the practices of today.

For the super app creator, this solution stands to be highly lucrative, which explains why more than 30 global platforms either currently meet criteria to be considered a super app or are working toward it. Take PayPal alone, which launched its version in September 2021. As of Q1 2022, the company boasted 429 million active user accounts. Assuming reports of the average account balance of $485 are accurate, we're talking about the potential for more than $200 billion to be held outside of the traditional banking infrastructure.

Clearly, we're past the "wait-and-see" phase, and it's time to act to retain our customers. Community banks must capitalize on their strengths to keep their customers engaged, specifically by:

- **Emphasizing bank security.** According to Mercator Advisory Group, "U.S. consumers cite security concerns as a top reason for not using a payment app, so convincing consumers to put more personal information under a single interface is likely unrealistic in the near term." With data breaches at their highest levels ever, now is a good time to remind consumers of the benefits of keeping their money within a federally insured institution that applies stringent safety protocols and adheres to the highest levels of regulatory compliance to safeguard consumer data.
- **Offering payment choice.** When it comes to current behaviors, customers still rely on their physical cards. In a Mercator Advisory Group survey of 3,000 consumers, 57% reported using a card inserted into a terminal, with another 26% waving or tapping their card at the terminal. The use of apps for payments continues to grow. So, creating opportunities where customers can choose between digital and physical offerings will help customers leverage payment technologies in their preferred manner.
- **Doubling down on customer service.** Your customers seek a relationship where they know they can come to a live person who they know with any concerns versus super apps, which have less than stellar customer support for issue resolution. Continuing to distinguish community banking from the faceless interactions of the super app also reinforces the value of your bank for servicing all their payment needs.
- **Enhancing your app experience.** You already provide access to banking information via your digital banking apps, so take the time to iteratively upgrade your offerings. Find out what your customers are looking for from your bank — financial wellness tracking, savings optimization, chat or voice features or other needs — and get it on your roadmap. As Mercator sums up, "If investments are made to match the user experience, financial institutions could compete very well and weaken the current threat that these fintechs represent."

The super app is just the latest iteration of banking competition, and in this case, community banks have a leg up. By identifying the right digital tools to augment your current relationship-banking model, you will meet your customers' digital expectations and deepen their connection to you as a trusted partner. ■

DID YOU KNOW?

More than 1/3 of global executives believe it's highly likely that most financial transactions will take place through a single super app within the next decade.

Source: Insider Intelligence

Tina Giorgio is ICBA Bancard president and CEO. She can be reached at tina.giorgio@icba.org.

CDD SPOTLIGHT

QUESTIONNAIRE

Deirdra "Didi" Drake

CEO/Compliance Officer,
Bank of Chestnut

What do you find most challenging about your job?

REGULATIONS! Implementing any new regulations or fees and then addressing those processes or changes with our customers is the most challenging aspect of my job. All the banking jargon makes sense to us bankers, but trying to interpret those for our customers can be a real challenge.

What do you find most rewarding about your job?

Customer service and community involvement are the most rewarding aspects of my job. I truly enjoy working and socializing with our customers. It's always my goal to connect with our customers on a personal level and provide them with a positive banking interaction. I also enjoy any opportunity to represent the bank in our community — I'm proud of our little bank and our little town, so I am happy to do anything I can do to help make our town or bank better!

How did you get involved with CBAI?

I've been involved with CBAI since before I was even a banker! My family has owned/managed our bank for four generations, and I've had the opportunity to attend CBAI functions and conferences with my father years before the bank officially employed me. I didn't come from a financial background, so I relied on CBAI training/seminars/conferences and then The Community Banker's School as I began my banking career. The school is where I learned about CDD. As a multigenerational banker, I knew that I wanted to be involved in leading our bank in some capacity in the future. So, when I started working at the bank, I was looking for opportunities to learn about every aspect of banking and continue to grow in the field, and CDD offered that opportunity for me.

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

Being such a small bank, we struggle to offer the variety of services to our customers compared to other larger banks, especially regarding technology. We've been advocating for improvements in our area for broadband internet, which would support more tech-based services to our customers, and hope to expand our services one day.

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

Most people don't know that I worked as a legal advocate for a domestic violence program for more than 10 years before moving back "home" and working at the bank. That experience definitely shaped my customer service skills, and having that legal experience was a plus as I took on the compliance world of banking. If I left the banking profession, I would most likely go back to working in social services or legal advocacy — maybe Jerry Peck would hire me. ■

ATTENTION TO PRIVACY EXPECTATIONS AND REQUIREMENTS

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

The original Privacy Act dates back to 1974 when a federal law was enacted to protect the collection, maintenance, use and dissemination of personally identifiable information about individuals maintained in systems or in records by federal agencies. Later, the August 21, 1996, **HIPAA** Privacy Rule further tightened privacy standards to protect individuals' medical records and other individually identifiable health information, not just in written documents but in electronic transactions and records as well.

If asked, would you know the answer to the question, "In your organization, who is primarily responsible for lawfully collecting, using, sharing and protecting the privacy of personal information?" The answer should be EVERYONE. While employees have differing roles, when it comes to lawfully using and protecting data privacy, there isn't one department that is primarily responsible; it's a responsibility we all share.

Personal data refers to pieces of information that can personally identify us whether alone or in combination with other information. These include:

- Full Names
- Addresses
- National Identification Numbers
- Dates & Places of Birth
- Credit/Debit Card Numbers
- Fingerprints
- Email Addresses
- Internet Protocol (IP) Addresses
- Health Records
- Sex, Gender, Race & Ethnicity
- Marital Status
- Vehicle Identifiers
- Emergency Contacts
- Citizenship or Legal Status

And in some countries, personal data includes expressions of opinions made by or about someone.

If you have access to personal data, you should collect, use and share only the *minimum* amount to perform your job. Vet data collection from time to time with your manager. Watch out! The resale of data may violate customer permissions. Your customer may have agreed to share information with YOU, but not with THIRD PARTIES! Also, exercise care before engaging in any new uses of data, changing IT systems or engaging a new vendor.

Storing personal data (both physical and electronic access) securely and ensuring legitimate access to it is key to protection. Do not remove personal data from the workplace unless authorized to do so, follow records management policies and legal hold notices, and securely dispose of data that is no longer required to be kept. Account numbers are always considered personal data, even when they stand alone. Documents with account numbers or internal employer information need to be shredded, destroyed or otherwise disposed of in a way that would make it impossible for the information to be viewed or used by someone without permission. Blacking-out account numbers may not fully eliminate all personal data on documents. Shred, shred, shred to avoid criminal dumpster divers. Of course, immediately report any suspected or actual breaches of data privacy to members of management.

Know how to handle a data breach to contain the incident and minimize damage. For instance, if you misdirect an email with personal data, request the recipient to delete the data and confirm the deletion. Immediately report any data incident involving personal data, and follow all future prevention measures. Incorporate lessons learned into your future practice.

If you work in HR, you typically have access to data relating to employee contact and contract information, employment history, remuneration, leave requests, employee training, onboarding and employee conduct. Use your position to encourage every employee to adhere to all privacy responsibilities by providing adequate training, regularly assessing risk, frequently communicating responsibilities and limiting access to those with a business need to know or legal justification to know.

Keep your legal counsel informed because of their unique knowledge of applicable laws affecting privacy, like GDPR, UK Data Protection Laws and the CCPA, which have all strengthened individual privacy rights, including placement of responsibility on employers. Keep in mind these laws have broad definitions of data (including pseudonymous data and online identifiers), apply to third parties that process information on your behalf (i.e., virtually anyone who collects or receives personal data), include potentially large fines for non-compliance, require "privacy by design" and "privacy by default" measures, and require reporting of personal data breaches without undue delay.

Today's technology poses further unique security and privacy risks, so it's good to remember to never transmit personal data while connected to an unsecured network such as public Wi-Fi connections that do not require password(s) or use unsecured transmission methods. Never send work emails containing personal information to your personal email accounts. Do not upload personal data to unapproved cloud applications or online storage. Do not carry personal data on removable media like a thumb USB drive unless essential for business purposes and includes strong encryption. Lastly, beware of phishing attempts that use email to gain access to your business networks, either through malware or by tracking the recipient into providing secure login information.

If you're a member of IT for your employer, you have a special set of responsibilities to provide a secure infrastructure to support data security for physical, backup, recovery and transmission. Granting access privileges, documenting all authorized users, ensuring individuals only have access to information for which they have been authorized or legally permitted to access, removing access to or deleting information when it's no longer needed, and assuming responsibility for centrally held data and data within your system or department make you a critical component to privacy.

As a manager, you have added responsibility when it comes to protecting data privacy, especially in the event of a real or suspected breach, and embedding data privacy policies into your operations. Respond to real or suspected breaches immediately by making an internal report to ensure an appropriate organizational response, report the incident through proper channels and provide relevant information such as the number of records exposed, categories of data breached, measures taken to mitigate damage and whether there is a high risk to employee or consumer rights and freedoms.

Speak up any time you're facing a situation where the right decision is not clear, and ask yourself some critical questions:

- Do you suspect unethical behavior?
- Did you see someone do something that violates policy or the law?
- Is someone pressuring you to do something you shouldn't?
- Do you believe that you or someone else is facing retaliation for speaking up?

If you answered "yes" to any of these questions, speak up! If you don't speak up, you send the message that unethical behavior is OK. Speaking up gives you the opportunity to preserve your company's reputation and reinforce that people at your institution do the right thing. Continued success depends upon the ability to maintain a culture of integrity. ■

For questions on this subject, please contact Community BancInsurance Services, A Gallagher Company, the exclusively endorsed insurance representative of CBAI/CBSC. Ask for Patti Tobin, CIC, insurance advisor, area financial institutions director at 217/414-4485 or patti_tobin@ajg.com.

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

DID YOU KNOW?

87% of consumers say data privacy is a basic human right.

Source: Forbes Media LLC

Consumers Seek Financial Guidance and Comfort from Non-Traditional Sources Like TikTok, Vericast Survey Finds

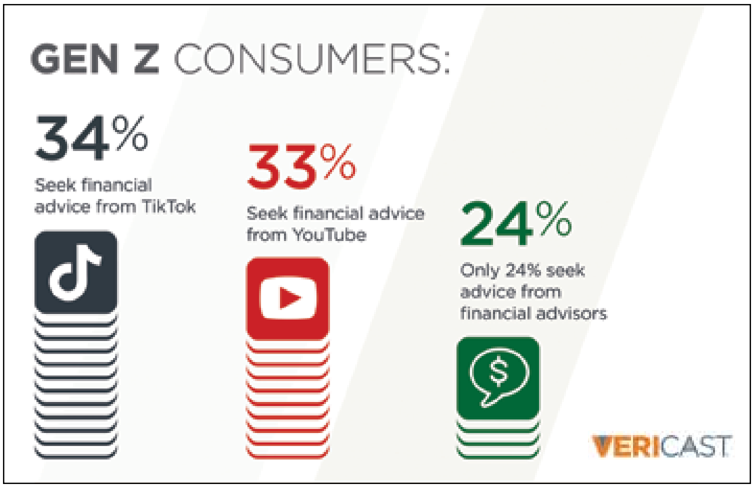
Financial institutions must tune into consumer expectations and meet them where they are to retain and attract loyal customers. Vericast's latest research revealed how consumers' relationships with financial institutions are changing, and in some surprising ways.

Nearly half of respondents say they seek financial advice from friends or family, while less than a third are seeking it from a bank, credit union or financial advisor. Thirty-four percent of Gen Z consumers obtain financial advice from TikTok and 33% get it from YouTube, while only 24% of this age group seek advice from financial advisors.

To uncover insights on the current state of financial perceptions and priorities, Vericast, a marketing solutions company, conducted a survey of 1,000 adults in the U.S. and found that people are increasingly turning to alternate sources for financial information and advice.

"It is clear that financial institutions have a critical need to innovate quickly and reimagine their approach to retain customers," said Stephenie Williams, vice president, financial institution marketing product and strategy at Vericast. "Banks and credit unions need to meet customers where they are, not only positioning themselves as a go-to, trusted resource providing education through traditional strategies, but also using new channels and platforms to reach younger generations."

Furthermore, there is an opportunity to deliver on evolving expectations to help banks and credit unions acquire and retain customers amid market volatility. According to the survey, consumers expect financial institutions to accommodate them during widespread financial hardships, like the unprecedented inflation we are experiencing today. Seventy-nine percent expect flexibility on rates and fees, such as waiving overdraft or late fees, while 66% say they expect it to be easier to obtain new lines of credit. An additional 69% said notifications about lines of credit available to them and promotions on special rate offers, such as low-interest balance transfers, are also expected during times of financial instability.



Additional findings from the survey include:

There is a correlation between mental well-being and banking.

- Seventy-five percent of consumers say the amount of money in their bank account impacts their mental health.
- For this reason, almost half (48%) are prioritizing building their savings account in 2022.

Mobile banking, interest rates and sign-up incentives factor into choosing a financial institution.

- Sixty-one percent of consumers surveyed selected mobile banking capabilities as one of the top factors influencing their choice to bank with a financial institution.
- When asked what would persuade them to switch financial institutions, two-thirds noted better interest rates as well as incentives to open an account, such as a cash reward for signing up, while 68% said fewer fees would incentivize switching.

Financial priorities for 2022 show opportunity.

- Amid market volatility, building up savings (48%), paying off debt (47%) and investing directly in stocks (21%) are top financial priorities this year.
- Only 12% plan to open a new checking account this year, and only 19% anticipate opening a credit card; for over half of consumers, it has been five years or more since they last opened a bank account.
- There are opportunities for financial institutions to generate business. Nearly half (42%) of consumers are planning to buy a car in 2022, and 34% are planning to remodel their homes. ■

Vericast is reimagining marketing solutions one business-to-human connection at a time. By influencing how over 120 million households eat, shop, buy, save and borrow, Vericast fuels commerce, drives economic growth and directly accelerates revenue potential for thousands of brands and businesses. While its award-winning portfolio of products, technology and solutions are part of the Vericast story, its people are the true differentiators, trailblazers in data intelligence, marketing services, transaction solutions, campaign management and media delivery.

CBAI's Career Development Division Spring Meeting

The Annual Spring Meeting of CBAI's Career Development Division (CDD) was held June 26–27, 2022, at the Hilton at the Ballpark, St. Louis. The meeting attracted nearly 60 CDD members. The conference kicked off with a day of networking and fun where participants attended a St. Louis Cardinals and Chicago Cubs baseball game at Busch Stadium. Loyalties were split about 50/50 among the group as the Cubs claimed victory over the Cardinals.

The morning of the 27th began with Roxanne Emmerich of The Emmerich Group's interactive session, "How to Create a Thank God It's Monday Workplace: Strategies for These #IHateMyJob Times."

The Business Meeting Luncheon was kicked off by CDD Chairman Katie Ashworth of CNB Bank & Trust, N.A., Carlinville, reporting that the recruitment of members continues throughout the year and that CDD had picked up 13 new members prior to the Spring Meeting. Secretary/Treasurer Cameron Ohlendorf of First Community Bank & Trust, Beecher, provided a healthy financial report.

SAVE THE DATE!
CDD Fall Meeting
October 17–18, 2022
Par-A-Dice Hotel
Peoria, IL

Emmerich continued with another general session after the luncheon where a group activity took place. CDD raised $100 by conducting a "dress-down" day that benefitted the Foundation for Community Banking.

A special thank you goes to the **Federal Home Loan Bank of Chicago and CBSC** for their sponsorship of the conference.

New Members of the CBAI Career Development Division:

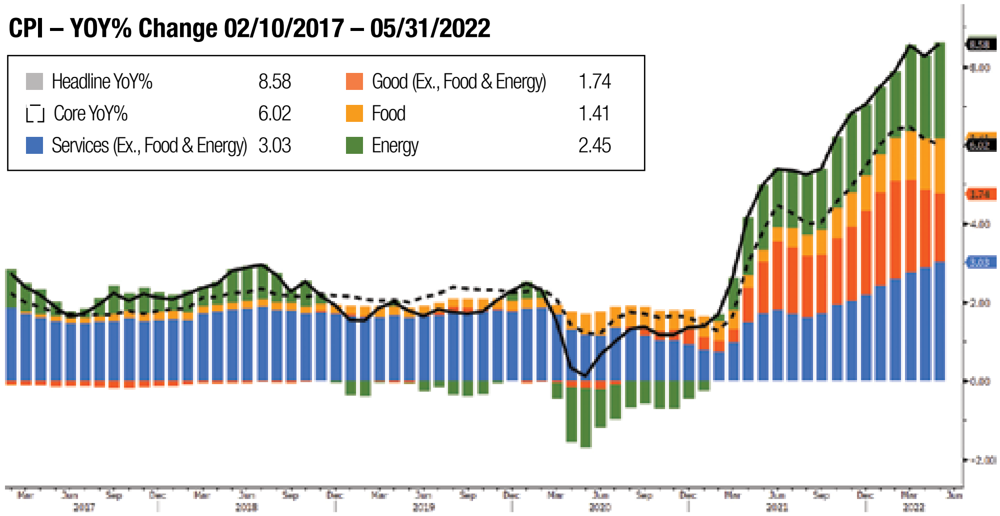
- Liesl Abrassart — National Bank of St. Anne
- Jessica Adams — National Bank of St. Anne
- Tiffany Austin — National Bank of St. Anne
- Daisy Diaz — PeopleFirst Bank, Joliet
- Bailey Flemming — German-American State Bank, German Valley
- Jonathan Harris — First National Bank in Pinckneyville
- Megan Kistler — The FNB Community Bank, Vandalia
- Brittany Klein — German-American State Bank, German Valley
- Gretchen Krugler — PeopleFirst Bank, Joliet
- Martin Miller — OSB Community Bank, Ottawa
- Ryan Rogers — The Frederick Community Bank, Paxton
- Andy Slotter — Wipfli LLP
- Michael Wollschlager — Goodfield State Bank ■

The Importance of Asset Pricing and ALM Strategy

Andrew Okolski, Senior Financial Strategist,
The Baker Group, Oklahoma City, OK

As if navigating the 2008 housing crisis and 2020 global pandemic weren't enough, banks now face the most feared economic monster of all — inflation. CPI YOY jumped by 8.6% in May of 2022, backed by broad price increases across many sectors. Obviously, this is well above the Fed's normal target of 2% and increases the chances of more severe economic headwinds. If the Fed aggressively fights inflation through higher rates and balance sheet reduction, they will add significant downward pressure on consumers and the overall economy. If they are not aggressive enough, inflation can remain elevated for a longer period of time, also adding significant downward pressure.

CPI – YOY% Change 02/10/2017 – 05/31/2022



**CPI Data & Chart from Bloomberg*

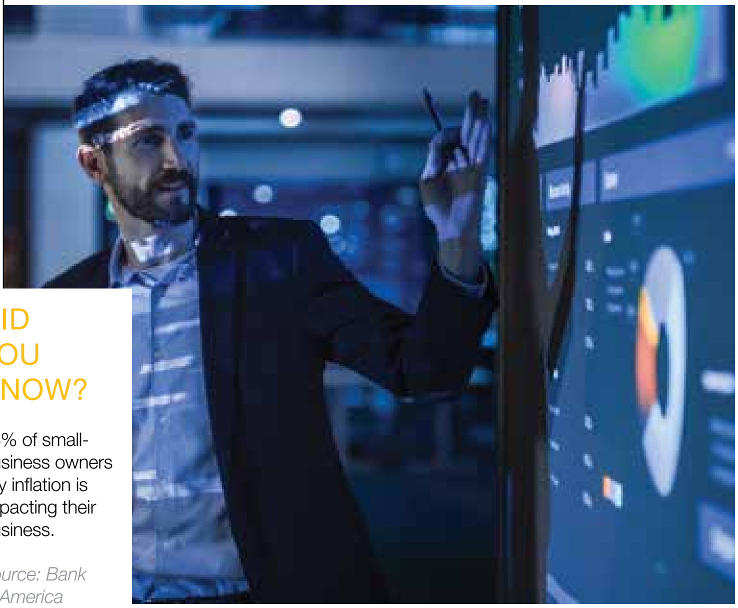
I think everyone was hoping for a bit of a breather coming into 2022; however, we instead find ourselves in an equally challenging situation where asset pricing and ALM strategy are of the utmost importance. For most of the past two years, it was income and capital pressures that kept many up at night. The good news is that today's higher yields offer quick relief in those categories. Unfortunately, we now

Continued on next page...

have some new pressures coming in the form of falling asset market values. While every institution is unique, the function of managing interest rate risk (and specifically market risk) can almost always be improved through the inclusion of EVE and Income Simulation results. Doing so is key when discussing overall asset pricing along with the difference between ALM results and executed strategy.

It's important to note that the rate of change is just as important as the overall amount of change when it comes to asset/liability management. This is the reason asset pricing becomes so important in this type of volatile interest rate environment. The faster interest rates rise, the greater the negative impact on our EVE in particular. The main reason behind this is the fact that quick rate movements leave depository institutions very little time to react and adjust their asset yields. We can only add higher-yielding investments and write higher-yielding loans so fast. Often this means that the first few quarters during a rising rate trend can magnify and even potentially overstate our IRR risk as measured through EVE. So, what can we do to combat this?

Well, at least part of the answer is that we need to quicken the pace of asset repricing on our balance sheets. By no means am I implying that this is an easy task. However, it is extremely necessary and should be a top management and ALCO priority. Increased loan demand is a very welcome sight, especially after what we have experienced during the past two years. The tricky part is that those new loans need to be at or above current market levels to begin softening our EVE risk. It doesn't help our IRR position to be adding loans at 2021 levels. The market currently expects Fed Funds to reach 2.5% to 3% by the end of this year, and short



DID YOU KNOW?

88% of small-business owners say inflation is impacting their business.

Source: Bank of America

"It's important to note that the rate of change is just as important as the overall amount of change when it comes to asset/liability management. This is the reason asset pricing becomes so important in this type of volatile interest rate environment."

investments (without credit risk) can easily earn us a 3% yield or more. All these factors must be taken into account when discussing and adjusting asset pricing strategies right now.

This is one of the reasons that including ALM results in every strategic decision is so critical. It greatly shortens our reaction time and reduces how far off the path we can find ourselves in volatile environments. 2022, and likely 2023, will require more frequent/active ALCO and strategic planning sessions. At the same time, we need to ensure that the decisions we make in those meetings are in line with the assumptions we use in our ALM documents. Otherwise, we are basing our strategic movements on outdated directions.

For example, what if our ALM assumes that new loan volume will keep up with market rates (in a rising rate environment) to increase yield and limit EVE risk? However, during our next ALCO/board meeting the temptation to continue generating additional loan volume by not raising loan rates is too strong for the board to pass up. We could end up with a significantly higher level of IRR than our ALM results originally showed. The same can certainly be said on the deposit side of things. So, our ALCO decisions and ALM assumptions must be kept in line to ensure consistent accuracy of future strategic planning.

This is the reason we must always be looking to define, measure and then manage our risks. Hopefully, many of you will already have this management process in place and find yourselves well prepared to handle this environment's new challenges. For those who do not, there is still time to align your internal systems and improve your institution's ability to react quickly and correctly. However, that window of opportunity is closing, and now is the time to start having those conversations. ■

Andrew Okolski is a senior financial strategist at The Baker Group. He works directly with clients in a broad range of areas including ALM, education, portfolio management, interest rate risk management, strategic planning, regulatory issues and wholesale market strategies for financial institutions. Contact: 800/937-2257, andyo@gobaker.com.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FACING SUPPLY CHAIN ISSUES WITH STRATEGY AND FLEXIBILITY

John Bybee, Independent Sales Representative, Regency360

We've all heard it. We've all experienced it. There are three little words that seem to be thrown around a lot lately — supply chain issues. And there is a myriad of excuses that follow. It is not just the banking industry but in every industry. What does it really mean, and why is it happening? Why has a two-day turnaround turned into two weeks or two months? And, more importantly, what can your bank do about it?

You probably noticed a labor shortage at your favorite restaurant or store, and maybe even in your own bank. It is also taking place in the shipping industry. Even when products are able to be manufactured, sometimes the merchandise is stranded in ports for weeks or months before it can be unloaded. This also leads to container availability problems. Freight prices have increased dramatically as a result.

In addition to the labor shortage, we have all heard about a paper shortage, as well. As an industry that relies on communicating with its customers, banks have surely felt the impact of this shortage, from letterhead to envelopes to deposit slips and more. Lately, rather than paper, the shortage seems to be with adhesive. There is finally more paper to make letterhead and envelopes, but there is a lack of adhesive to seal the envelopes.

All of this not only contributes to slower turnaround but higher prices, as well.

My own eyes were really opened a couple of years ago when all of the supply chain issues really started. Personally, I had never had to realize how many things have to go exactly right to fulfill each and every order. At your bank, you realize that you are out of something, so you put in an order to get more. Seems simple enough. But this relies on the fact that what you order is in stock, the manufacturer is adequately staffed, there are boxes available in which to ship the order, the courier has the manpower to pick it up, and someone is available to receive the order — the list goes on. Thanks to COVID-19, demand and deliveries are going up and manpower is going down. There are so many steps that must go correctly from point A to Z. If something goes wrong in any of those steps, it can slow things up tremendously. There are a lot of wildcards at play, and they are becoming more and more unreliable.

And, let's not forget about inflation. In a world where people are always trying to do more with less, we have finally reached a point where we can't do ANY more with ANY less.

So, what's the solution? What can your bank do?

With inflation, should you buy in bulk to avoid paying higher prices later? There is no easy answer and no crystal ball when it comes to inflation. Costs are going up, freight is going up, and there seems to be no end in sight. Popular opinion seems to be that prices will continue to rise. In all honesty, prices may never return to the same level as they were pre-COVID. Even if a manufacturer receives a discount, they may not pass it along to the consumer. On certain products, it may make sense to order in bulk, but not in all instances. There is a fine line. One of my customers was

really feeling the pressure during the early days of COVID-19 and made the decision to purchase an 18-month supply of everything. Yes, they were able to get certain items at a more reasonable price before inflation hit. But, not long after, they also made the decision to open a new branch location, which made all of their pre-printed materials incorrect. They ended up getting rid of a ton of inventory because it became unusable.

Other factors can come into play, as well. For instance, in Illinois, the humidity is terrible, and the winter is cold. Because of this, a bulk inventory of envelopes sitting in a wet basement is deteriorating every month that they are not used. Bulk purchasing can be beneficial, but it must be well calculated.

Another good practice is to examine your reorder points and make the necessary changes to what you have done in the past. For example, if your bank's typical reorder point for envelopes is six weeks, and now envelopes are taking two to three months, change your reorder point to four months instead.

As a customer, one more key point to remember is flexibility. For example, apparel is one of the largest-growing product categories for banks, but suppliers have to rely on Nike, Under Armour and Adidas to have stock available that they can then embroider with logos. Nike is typically the number one polo provided to banks. If a bank wants to spend $40–60 on Nike polos, in royal blue, a good supplier should be able to fill this order 100% of the time. If your bank wants the Nike Vapor Line dry-fit royal blue polo in a 3XL tall, that is much more difficult, if possible at all. There may need to be flexibility on the customer's end simply because Nike does not have that product available in its inventory. If you are flexible, you can order a Nike royal blue polo that is of the same quality but different texture, still in a 3XL tall. As long as a bank is willing to have a little flexibility, you should be able to receive an equivalent item.

"The bottom line is, turnaround times have doubled or tripled. What used to be six to 10 days is now six to 10 weeks. The days of ordering a product when you run out on a Monday and getting it on Wednesday are over."

Why is Regency360 different than other suppliers?

Due to its affiliation with Office Depot, Regency360 has access to all of the wholesalers in the industry and all of their warehouses. I have weekly meetings with all major wholesalers across the board, and I can get a very good feel of what they have available and what issues they are experiencing. I have access to live data where I can check their complete inventory. Regency360 is extremely progressive in making sure the technology available today is what we need, but it is also always looking forward and pushing the wholesalers to get more and more information. Eight years ago, I didn't need access to all the warehouses because they were all full. But now this access has been integrated into the Regency360 system. I can see colors, sizes and specifics for apparel and promotional products, and send banks screenshots of inventory levels for specific warehouses.

I recently had a new customer come on that was building a corporate store. They provided me with a list of apparel items they have ordered in the past. Their current vendor only had access to one warehouse for one wholesaler, and the bank couldn't purchase what they had previously ordered. Regency360 has the technology to look nationwide, with access to all warehouses for all wholesalers. Their vendor would take six months to provide them with a product that Regency could get to them in six days. It really hit home for them with that instance.

Regency360 is also able to hold inventory for our bank customers. One customer, in particular, has 60 different branch locations. Each location has its own envelopes, stationery, etc., so there are 60 different versions of their printed products. With effective communication, we made sure that even during the worst of COVID-19, none of their branches ever ran out of anything.

If you use a system with inventory tracking and usage tracking, you don't have to tie up the bank's money in three years' worth of drive-up envelopes because you are afraid you won't be able to get them down the road. Inventory is something your sales rep should look at every day.

The bottom line is, turnaround times have doubled or tripled. What used to be six to 10 days is now six to 10 weeks. The days of ordering a product when you run out on a Monday and getting it on Wednesday are over. No one can orchestrate a 72-hour turnaround anymore. But, if your bank inventories supplies, it can get that inventory item on the next day or the day after.

Supply chain issues have definitely caused a lot of headaches, but hopefully, with a little flexibility, strategy, insight and planning we can navigate this "new normal" in the most effective and painless way possible. ■

John Bybee is an independent sales representative with Regency360. A CBSC Preferred Service Provider, Regency360's Online Company Store automates the acquisition, distribution, warehousing and invoicing of office supplies, corporate-logoed apparel and promotional items. For more information, contact John Bybee at 217/653-4028 or via email at jbybee@regency360.com, or visit www.regency360.com.

Community BancPac and the **Foundation Team** Up for **Auction Fundraiser**

CBAI's BancPac and Foundation for Community Banking have teamed up this year to make the annual live and silent auctions even bigger! You won't want to miss this year's Welcoming Reception at CBAI's 48th Annual Convention & Expo on Thursday, September 29, 2022, at the Marriott St. Louis Grand. The Foundation will be joining in on the action and will be auctioning off even more items during the live auction, as well as offering a game of chance where everyone wins! As always, CBAI's BancPac will have several tables of unique silent auction items to explore, with great finds from hard-to-find liquor and sports items to purses and jewelry, as well as even more premium items added to the live auction. Made possible by the generosity of community bankers, you can take advantage of this great opportunity to help support two great missions with Community BancPac and the Foundation scholarship program.

SNEAK PEEK – FOUNDATION LIVE AUCTION ITEMS

Four St. Louis Cardinal Tickets for the Last Home Game of the Season

VALUE: $620

This game is definitely a can't miss for any true Cardinal fan. The last home game of the 2022 season at Busch Stadium on Sunday, October 2, will honor three future Hall of Famers retiring at the end of the year. Don't miss your chance to be in attendance as the Cardinals say a final goodbye and honor Adam Wainwright, Yadier Molina and Albert Pujols. The first 25,000 fans age 16 and older will receive a locally commissioned Molina and Wainwright canvas print celebrating the friendship and shared careers of the famous pitcher/catcher duo that (as of this printing) is second all-time for the most starts as a battery. **Tickets to the game are located in Dugout Box 135, Row H, on the first base side, just eight rows off the field.**

Donated by: ***Bank of Springfield***

Cubs Adjustable Bar Table & Stools

VALUE: $450

This item is the perfect addition to any garage, sports room or any room you want to show your team pride! The table is hand-painted with a clear epoxy resin hard coat for protection and a beautiful glossy finish. Measuring 23.7 inches in diameter, the height is adjustable from 27–36-inches high. Two stools are included. Each table is custom-made to order. This piece features a Chicago Cubs logo.

Donated by: ***Kim McKee, North Central Bank, Hennepin, and Amy Thiede, Prairie Community Bank, Marengo***

Foundation Wine Pull Raffle

In addition to the live auction items, the Foundation will be holding a "wine pull" raffle at the Welcoming Reception. How does a wine pull raffle work? Bottles of wine are being donated by CBAI and CBSC board members and staff prior to the event. Interested parties attending the auction can purchase a ticket for a blind pull of a bottle of wine for $20 each. The majority of the bottles of wine will be worth $20–$30, with some pricier bottles mixed in for the luckiest participants. Watch CBAI's e-news for a partial listing of wines included in the raffle!

Even if you don't bid, you can still win! Prizes donated by CBAI staff members will be given away throughout the live auction, but you must be present to win! Make sure you stay for the full event so you can have the opportunity to walk away with a $100 bill, donated by Kraig Lounsberry, two dozen Titleist ProV1 golf balls, donated by Jerry Peck, an Echo Show 5 with Blink Mini smart security camera, donated by Valerie Johnston and much more!

This is always a fun-filled event that kicks off CBAI's Annual Convention. But we can't make it a success without all of you. We are kindly asking you to consider participating in the wine pull and bidding on your favorite silent and live items to help make this auction the best ever! ■

CBAI Ag Lenders' School

HELD JULY 26–28, 2022

The three-day CBAI Ag Lenders' School curriculum was developed to meet the training needs of agricultural lending institutions. Sessions used practical examples to demonstrate concepts focused on issues critical to successful agricultural lending. Speakers used a balance of presentations, exercises, case studies and a simulation where participants worked in teams while still using social distancing protocols to provide a quality learning experience.

Leading this school was Freddie L. Barnard, professor emeritus of agricultural economics at Purdue University, West Lafayette, Indiana. Emmet Fairfield, partner with Brown, Hay & Stephens, presented "Loan & Collateral Documentation for Ag Lending," while John Gehrke, farm loan chief Illinois Farm Service Agency, USDA, presented the session, "FSA Programs & Perspectives." In its fourth year, the CBAI Ag Lenders' School attracted 14 attendees.

Attendees:
Alex Bond, Princeville State Bank
Cole DuSablon, First National Bank in Olney
Benjamin Gaither, First National Bank in Olney
Carl Goebel, CNB Bank & Trust, N.A., *Carlinville*
Blake Hartman, First State Bank, *Mendota*
Matt Hoose, Prospect Bank, *Paris*
Paul Jockisch, III, Havana National Bank
Brandon LeSage, State Bank of Toulon
Richard Ritter, Flanagan State Bank
Molly Jane Ruyle, The First National Bank of Raymond
Matthew Slighton, CNB Bank & Trust, N.A., *Carlinville*
Bryce Thronton, Scott State Bank, *Bethany*
Kylie Vandersnick, BankORION
David Wyss, Jr., Flanagan State Bank ■

CBAI'S

COMMUNITY BANKERS SCHOOL GRADUATES 35 BANKERS

CBAI announced that 35 individuals graduated in July from the Community Bankers School (CBS) at Illinois Wesleyan University in Bloomington. CBS, which consists of two, one-week sessions over a two-year period allows community bankers to immediately contribute to the overall success of their banks and provides the knowledge necessary to get ahead. An intensive program designed for today's community bank professional, CBS features a nationally recognized faculty, an updated curriculum and timely topics.

Topics covered during an intense week for Class I, which included 37 participants, were compliance, accounting, commercial and consumer loan documentation, collections, bank security, auditing, investments and technology, while Class II focused on management aspects. The school's benefits extend beyond the classroom with outside case studies, an invaluable student notebook with supplemental materials, as well as networking opportunities with peers, instructors and senior bankers. Students gained background and experience for broader responsibilities and greater effectiveness, as well as insight into a community bank's overall operations responsibilities.

2022 Graduates:

Elizabeth Allen, Better Banks, *Peoria*

Cody Appell, Anderson State Bank

Brooke Bailey, TrustBank, *Olney*

Chris Crider, Anchor State Bank

Bethany Dunham, Farmers National Bank of Griggsville

Lauren Flickinger, MidAmerica National Bank, *Canton*

Amber Floersch, Prairie Community Bank, *Marengo*

Haley Freeman, MidAmerica National Bank, *Canton*

Max Gentry, Arcola First Bank

Kelly Greene, Rushville State Bank

Amanda Hiett, Fairfield National Bank

Rhett Hillard, First National Bank & Trust Company, *Clinton*

Gracie Hood, Ipava State Bank, *Lewistown*

Joseph Johnson, CNB Bank & Trust, N.A., *Carlinville*

Amanda Jones, Buena Vista National Bank, *Chester*

Kamala Jones, Anchor State Bank

Julie Kamp, The Clay City Banking Co.

Cody Kietzman, The Frederick Community Bank, *Paxton*

Tawnya Lipman, German-American State Bank, *German Valley*

Karol Lower, Lena State Bank

Todd Lucas, Warren-Boynton State Bank, *New Berlin*

Trey Murphy, Petefish, Skiles & Co., *Virginia*

Craig Myers, Washington State Bank

Kala Peacock, West Central Bank, *Ashland*

Austin Pletsch, The Gerber State Bank, *Argenta*

Abigail Regas, Peoples Bank of Kankakee County, *Bourbonnais*

Chase Shawgo, Ipava State Bank, *Lewistown*

Mark Stamberger, First State Bank, *Mendota*

Jack Tinberg, CNB Bank & Trust, N.A., *Carlinville (Oak Forest branch)*

Jessica Turgeon, Ipava State Bank, *Lewistown*

Wesley Veach, First Robinson Savings Bank, N.A. – 2022 Class Representative

Corinn Wheeler, State Bank of Herscher

Tony Williams, State Street Bank & Trust Co., *Quincy*

Evan Wixom, First State Bank, *Mendota*

Jennifer Woods, Solutions Bank, *Forreston (Durand branch)* ■

2022 Group Meeting Wrap-Up

The 2022 Spring Group Meetings attracted close to 500 bankers from nearly 120 banks, as well as representatives from associate member firms, guests and staff, for a total attendance of nearly 700 individuals. At odd-numbered Group Meetings, CBAI members elected group directors to represent them during a two-year term.

The CBAI Group Directors for those groups are:
Group 1 – Patrick McShane, American Metro Bank, *Chicago*
Group 3 – Colleen Henkel, First National Bank in Amboy
Group 5 – Kim McKee, North Central Bank, *Hennepin*
Group 7 – Neal Stimpert, The Atlanta National Bank
Group 9 – Matt Beavers, First National Bank of Pana
Group 11 – Chuck Deters, Dieterich Bank

Appreciation goes to the following CBAI associate member firms that served as sponsors. Their generous contributions supported the more than $1,500 in golf and door prizes at each event.

Three-Star Sponsors
The Baker Group, *Oklahoma City, OK*
Community BancService Corporation, *Springfield, IL*
Federal Home Loan Bank of Chicago, *Chicago, IL*
Independent Community Bankers of America, *Washington, D.C.*

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SHAZAM®, *Johnston City, IA*

One-Star Sponsors
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CRA Partners, *Memphis, TN*
College Ave Student Loans, *Wilmington, DE*
Community BancInsurance Services,
A Gallagher Company, *Springfield, IL*
Curinos, *New York, NY*
Data Business Equipment, Inc., *Peoria, IL*
Econocheck, *Stockbridge, GA*
FORVIS, *Decatur, IL*
Fitech, *Fort Worth, TX*
IRONCORE, Inc., *Onalaska, WI*
IZALE Financial Group, *Elgin, IL*
Ncontracts, *Brentwood, TN*
Quad City Bank & Trust Co., *Davenport, IA*
Regency360, *Sherman, IL*
Vericast/Harland Clarke, *Lake Carroll, IL*
Wipfli LLP, *Sterling, IL*
Wolters Kluwer Financial Services, *Sammamish, WA*

State Bank of Graymont President Ron Minnaert presented a $1,000 scholarship from the Foundation for Community Banking to essay contest winner Samuel Fogarty at the Group 4 Meeting in Pontiac.

The following firms stepped forward as golf tournament sponsors at CBAI's Group Meetings:

Golf Tournament Sponsors

Adlumin, *Washington, D.C.*
The Baker Group, *Oklahoma City, OK*
CBAI 401(k) MEP, *East Peoria, IL*
CRA Partners, *Memphis, TN*
College Ave Student Loans, *Wilmington, DE*
Community BancInsurance Services, A Gallagher Company, *Springfield, IL*
Curinos, *New York, NY*
Data Business Equipment, Inc., *Peoria, IL*
Econocheck, *Stockbridge, GA*
Federal Home Loan Bank of Chicago, *Chicago, IL*
Fitech, *Fort Worth, TX*
IRONCORE, Inc., *Onalaska, WI*
IZALE Financial Group, *Elgin, IL*
Ncontracts, *Brentwood, TN*
Regency360, *Sherman, IL*
SHAZAM®, *Johnston City, IA*
Vericast/Harland Clarke, *Lake Carroll, IL*
Wolters Kluwer Financial Services, *Sammamish, WA* ■

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FOR MORE INFORMATION CONTACT

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Federal Courts Uphold Safe Reliance on P.O.A. Agent's Instructions

Jerry Cavanaugh, CBAI General Counsel, Springfield, IL

In a recent (published July 20) opinion, the U.S. Court of Appeals for the Seventh Circuit (Court of Appeals) affirmed the decision of an Indiana federal District Court (trial court) in the case of **Allen v. Brown Advisory, L.L.C.** The fact that the case was brought and was tried in Indiana is of no relevance to us because the states under the federal court jurisdiction of the Court of Appeals include both Indiana and Illinois.

The plaintiff in this case, a Power of Attorney Principal (P.O.A. Principal) had $2.3 million in I.R.A. accounts handled by the defendant, an investment advisory firm (Fiduciary). Before P.O.A. Principal and his wife moved into an assisted living facility in 2014, he granted an unrestricted Power of Attorney to his daughter (P.O.A. Agent). The P.O.A. instrument included the provision that "any third party receiving a duly executed copy of this document may rely on and act under it."

By 2019, although his wife's dementia was still progressing, P.O.A. Principal's personal physical and mental health had improved to the degree that he could resume some stewardship over his financial affairs. What he found (see next paragraph) caused him to revoke the P.O.A. authority of P.O.A. Agent and replace her with a different agent.

Between 2014 and 2019, P.O.A. Agent had made numerous withdrawals from the I.R.A. accounts with Fiduciary that P.O.A. Principal claimed were not for his benefit. P.O.A. Agent had also sold real estate of P.O.A. Principal without crediting the proceeds to the investment account at Fiduciary. By 2019, the $2.3 million fund balance at Fiduciary had dissipated to less than $600,000 and P.O.A. Principal had incurred substantial tax penalties. P.O.A. Principal sued Fiduciary under claims of both breach of contract and breach of fiduciary duty. Naturally, Fiduciary responded with motions to dismiss both claims.

For his breach of contract claim, P.O.A. Principal asserted that Fiduciary had a contractual obligation to "supervise and direct investments" in the account. Both the trial court and the Court of Appeals concluded that such contractual obligation referred to the management of funds while they were in the investment account, but ***not*** a duty to prevent or restrict withdrawals by an authorized person. Furthermore, even if Fiduciary did have a contractual obligation to restrict withdrawals, the P.O.A. nullified any contractual breach by Fiduciary because the P.O.A. Agent had the same contractual authority to make withdrawals from the Fiduciary account as if she had been the P.O.A. Principal.

Regarding the P.O.A. Agent's sale of real estate, P.O.A. Principal failed to provide any evidence that the real estate was contractually linked to Fiduciary's obligations for the financial investment funds.

Thus, the Court of Appeals found no evidence that would sustain a breach of contract claim against Fiduciary and concluded that the trial court's dismissal of that claim was proper.

Moving on to the breach of fiduciary duty claim [**SPOILER:** P.O.A. Principal fares no better on this claim]. The Court of Appeals specified that three elements must be proven to support such a claim: (1) the establishment of a fiduciary relationship; (2) the fiduciary's breach of a duty owed to the beneficiary; and (3) a causal link between the breach and harm/damages incurred by the beneficiary. In this case, the existence of a fiduciary relationship was undisputed. P.O.A. Principal had entrusted his funds to management by Fiduciary. But the trial court and Court of Appeals found that element (2) was lacking from P.O.A.'s evidence; while it would have been a breach of fiduciary duty to convert or misappropriate P.O.A. Principal's funds for its own self-interest, the disbursement of funds pursuant to an authorized withdrawal request could not constitute such a breach. Again, falling back on reliance upon the P.O.A. instrument, the Court of Appeals stated that P.O.A. Agent's unrestricted authority removed any burden on Fiduciary for oversight of the withdrawals, provided that Fiduciary itself was not a participant in or complicit with any misappropriation of funds by P.O.A. Agent.

The description of the outcomes of any case(s) referenced in this column is for informational purposes only, and does not represent any legal advice or recommendation as to any course of action that a bank should, or should not, take in a specific situation. Any actual dispute between a bank and a customer regarding any banking relationship calls for the consultation with, and reliance on, actual legal advice from the bank's own attorney. ■

Legal Link is a free CBAI member benefit. For answers to your general, banking-related legal questions, contact CBAI General Counsel Jerry Cavanaugh at 800/736-2224, 217/529-2265 or jerryc@cbai.com or CBAI Paralegal Levette Shade at levettes@cbai.com.

SEPTEMBER 2022

1 **CBAI's Cybersecurity Conference** — Northfield Center, Springfield

1 **How to Write an Effective Loan Write-Up & Loan Committee Presentation Skills Training** — Shazam Education Center, Springfield

1 **Consumer Lending Regulatory Essentials: Fair Lending, UDAAP, Privacy & More**

7 **Job-Specific BSA Training for the Frontline**

8 **Operations/Technology Group A** — Shazam Education Center, Springfield

8 **CEO Forum Group VI** — FORVIS Headquarters, St. Louis

8 **Operations/Technology Group E** — Grizzly Jack's Grand Bear Resort, Utica

8 **CFPB "Junk" Fees Advisory & Impact on Collections**

9 **Operations/Technology Group B** — Chicago Marriott, Naperville

12 **Fraud Channels: Check & Debit Cards**

13 **Traditional & Roth IRA Part 1: Eligibility, Contributions, Rollovers & Transfers**

14 **Operations/Technology Group C** — Shazam Education Center, Springfield

14 **Top 10 IT Frauds: Risks & Protection Strategies for Financial Institutions**

15 **Home Mortgage Disclosure Act (HMDA)** — Shazam Education Center, Springfield

15 **Troubled Debt Restructuring: What Qualifies & Accounting for TDRs as Credit Improves**

20 **Securing Collateral Part 2: Purchase Money Security Interests**

21 **Appraisal Reviews: Do You Know What to Look For?**

27 **TRID: Recognizing a Changed Circumstance & Issuing a Revised Loan Estimate**

28 **Avoiding UDAAP Claims, Errors & Penalties**

29 **Checks, Mobile Deposits, Substitute Checks: Indemnities, Endorsements & Timeframes**

29–OCTOBER 1 **CBAI's 48th Annual Convention & Exposition** — Marriott St. Louis Grand, St. Louis, MO

OCTOBER 2022

4 **Chapter 7 & 13 Consumer Bankruptcies: Special Rules, Cramdowns & Risks**

5 **Reg E & the Electronic Fund Transfer Act**

6 **Introduction to Commercial Lending** — Shazam Education Center, Springfield

6 **HR Group C** — Grizzly Jack's Grand Bear Resort, Utica

6 **Branch Manager Group B** — Grizzly Jack's Grand Bear Resort, Utica

6 **Are Safe Deposit Boxes on the Way Out?**

7 **HR Group A** — CBAI Headquarters, Springfield

11 **Call Report Loan Classifications**

12 **Images, Video, Audio: What's New & Next for Social Media Platforms?**

13 **HR Group D** — Drury Hotel, Mt. Vernon

13 **Preparing for Examination Under the Mortgage Servicing Rules**

13–14 **Credit Analyst: Level Two** — CBAI West Conference Room, Springfield

14 **HR Group B** — Shazam Education Center, Springfield

17–18 **CDD Fall Meeting** — Par-A-Dice Hotel, Peoria

18 **Traditional & Roth IRA Part 2: Distributions, Taxation, Withholding & Penalties**

19 **Handling Reg E Disputes Confidently & Compliantly**

21 **CEO Forum Group VII** — Chicago Marriott Naperville

24–26 **Consumer Lending Institute** — Shazam Education Center, Springfield

25 **Handling Court-Ordered Accounts: Estates, Guardianships, Conservatorships & Bankruptcy**

26 **Branch Manager Group A** — CBAI West Conference Room, Springfield

26 **Ability to Repay: Qualified Mortgages & TILA RESPA Disclosures**

27 **Robbery Basics & Beyond**

CBAI Webinar

Staff News

Johnston and Lounsberry

McClelland and Lounsberry

Two CBAI corporate family staff members celebrated anniversaries this summer. In July, **Valerie Johnston,** senior vice president of communications, was recognized for 20 years of service with the association. **Melinda McClelland,** vice president of education and special events, celebrated her 20th anniversary with the association in August. Both were presented recognition pins from **CBAI President Kraig Lounsberry.** ■

Welcome Members

NEW ASSOCIATE MEMBERS

Finlytica, Inc.
1111 Plaza Drive, Suite #790
Schaumburg, IL 60173
Supreet Singh, CEO
847/250-9191
www.finlytica.ai
ssingh@finlytica.ai
Banking Technology Services

Keeley Construction Group
500 South Ewing Avenue
St. Louis, MO 63103
Sarah Como, Events Coordinator
314/560-1101
www.keeleycontruction.com
scomo@keeleycompanies.com
Community Bank Design/Build Firm

Petefish, Skiles & Co. Bank Mortgage Service Program
102 West Beardstown Street
Virginia, IL 62691
Christopher Barrett, Division President
217/452-3041
www.petefishskiles.com
chris.barrett@petefishskiles.com
Correspondent Mortgage Lending Program

Thompson Hine LLP
20 North Clark Street, Suite #3200
Chicago, IL 60602
Simone A. Randolph, Partner
312/998-4282
www.thompsonhine.com
simone.randolph@thompsonhine.com
Law Firm

Member News


David Pirsein

David Pirsein, president and CEO of **First National Bank in Pinckneyville**, retired on June 30, 2022, after 36 years with the bank. In addition to his roles as president and CEO of the bank, he also served as chairman of First Perry Bancorp Inc. and its subsidiary, First National Insurance Services, Inc., since 2005. He was an active community banker for 44 years. He served as a board member of the Federal Home Loan Bank of Chicago, as well as two terms on the St. Louis Federal Reserve Board. He is a past chairman and board member of the Community Bankers Association of Illinois (CBAI) and past chairman and board member of its subsidiary, the Community BancService Corporation. He was honored by CBAI as the Outstanding Member of the Year in 2016.


Mary Jo Homan

Mary Jo Homan has been named the new president and CEO of **First National Bank in Pinckneyville** (FNB). Homan has 39 years of experience in community banking in Southern Illinois, mostly serving as vice president and treasurer at Chester National Bank. In addition, **Peggy Sims** has been named chairman of the board of directors. Sims continues to serve as vice president of First National Insurance, a subsidiary of FNB. She has served on the bank's board of directors for the past 12 years.

Dale Brockmann, president of **Old Exchange National Bank, Okawville**, recently celebrated 50 years in community banking, all of which were at Old Exchange. He was honored with an award from CBAI.


John Williams

John Williams with **CNB Bank & Trust, N.A., Chapin branch,** recently celebrated his 50th year in banking. Williams is an agriculture producer in the Jacksonville and Chapin Illinois areas and works professionally in farm business management for CNB. He continues to help area farmers to expand and improve their farming businesses.

Anchor State Bank recently held an open house to celebrate its new addition, which is in a 4,500-square-foot building adjoining the bank, originally constructed in 1914. The re-modeled 1,500 square feet includes an office, two workstations, two bathrooms and a board room/kitchen area. The remaining space is earmarked for storage and future expansion.


Jim Ruckstaetter

Jim Ruckstaetter, chief lending officer at **Devon Bank** in Chicago, was recently recognized for serving more than 50 years in community banking with a special award from CBAI.

BankORION recently announced the addition of **Toby A. Handel** as the chief financial officer. Handel joins BankORION with many years of accounting, tax and community bank experience. He is a CPA and spent many years as a senior manager with a nationally recognized CPA firm.

ICBA's *Independent Banker* magazine announced in the July issue its rankings of the top community bank loan producers based on 2021 FDIC data. The 2022 list features agricultural, commercial and consumer and mortgage lenders faced with both record-low interest rates and a glut of deposits. In the agriculture category, **Anchor State Bank** and **Bank of Pontiac** were recognized. **Waterman Bank** made the list for the consumer/mortgage loan category. For commercial loans, **PeopleFirst Bank, Joliet,** and **SouthernTrust Bank, Goreville,** were deemed as top lenders.

Quad City Bank & Trust is proud to welcome **Ryan Anselment** to the role of vice president and correspondent banking officer. Anselment has 22 years of professional sales experience in healthcare and manufacturing.

Cannabis compliance platform provider **Shield Compliance** recently announced the appointment of **Stephanie Baer** as senior BSA analyst. Baer has deep BSA/AML, OFAC and risk management experience. Before joining Shield Compliance, she was responsible for launching, implementing and managing a cannabis-banking program at a California-based financial institution.

SomerCor, a Chicago-based Certified Development Company (CDC), recently celebrated its 30th anniversary. SomerCor provides small-business owners with affordable financing through the U.S. Small Business Administration (SBA)504 loan program, an economic development initiative that helps small businesses expand their operations through the purchase of real estate or fixed equipment. ■

Foundation Report

Devon Bank, Chicago, became a silver-level sponsor of the Foundation.

State Bank of Whittington, Benton, made a payment toward its $5,000 pledge to the Foundation.

North Central Bank, Hennepin, recently selected the Foundation as the recipient of the bank's "Giving Program" for the month of May.

State Bank of Toulon held an employee jeans day in honor of the Foundation.

Mark Dougherty, Peoples Bank of Newton, made a donation to the Foundation.

CBAI's **Career Development Division** held a dress-down day at their Spring Meeting and donated the proceeds in the amount of $100 to the Foundation.

Board and committee members of the CBAI corporate family donating travel expenses to the Foundation are **Sheila Burcham, Community Trust Bank, Irvington; Will Coolley, Longview Capital Corporation, Newman; Carol Jo Fritts, First Neighbor Bank, N.A., Toledo; Colleen Henkel, The First National Bank in Amboy; Mary Jo Homan, First National Bank in Pinckneyville; Rick Klinedinst, MidAmerica National Bank, Canton; David Loundy, Devon Bank, Chicago; Doug Parrott, State Bank of Toulon; David Pirsein, First National Bank in Pinckneyville; Gregg Roegge, Rushville State Bank; Ken Scott, Preferred Bank, Casey; David Stanton, PeopleFirst Bank, Joliet; Alan Stremlau, Illini State Bank, Tonica;** and **Jim Weast, Warren-Boynton State Bank, New Berlin.**

Individuals and banks donating to the Foundation Live Auction are Kim McKee, North Central Bank, Hennepin; Amy Thiede, Prairie Community Bank, Marengo; Carol Jo Fritts, First Neighbor Bank, N.A., Toledo, and Bank of Springfield.

The Foundation received $200 from CBSC and CBAI board members as a result of the "dress-down" board meeting in June. ■

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