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WISCONSIN COMMUNITY BANKER

CBW Community Bankers of Wisconsin

Wisconsin Community Banker

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Doris Green, *Editor and Publisher*
Mary Lou Santovec, *Contributor*
Lisa Imhoff, Grey Horse Studio, *Art Director*

Editorial or subscriptions: e-mail Doris Green at green@merr.com or fax 608.583.2084
Advertising: Jami Erickson, Director of Member Communications, at 608.833.2386 or contact Doris Green

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Wisconsin Community Banker

March/April 2014 • Vol 14 No 2

On our cover . . . Community State Bank, Union Grove, welcomed 120 attendees to its first Business Economic Forum, held in Kansasville (see page 16). Photo credit: All Business Economic Forum and MyLife photos courtesy of Community State Bank.

CHAIRMAN'S VIEW

by Stan Leedle, CBW Chairman

Member Stories Draw Attention to Community Banking Month

This issue shines a light on one of CBW's founding members, Community State Bank in Union Grove. In March, its free-to-all Business Economic Forum presented an economic update and a talk on how understanding employee mobility can improve an organization's bottom-line performance. The forum is only one example of how all of our member banks serve both their customers and communities. Another Community State Bank story highlights how it serves the next generation of customers and community leaders (page 20).

Your collective stories create CBW's strong voice and highlight April Community Banking Month.

Community State Bank's Jeff Nielsen helped substantially with these stories. In addition, First Bank Financial Centre's Renee Solveson described FBFC's Charitable Giving program (page 34), and WaterStone Bank's Heather Zydek explained why the Milwaukee Journal Sentinel has named the bank a top workplace for the past four years (page 22). We couldn't publish this magazine without your help.

This March/April magazine is greatly strengthened by the contribution of CBW counsel Godfrey & Kahn, whose *Counselor's Corner* column by Jason Kuwayama explains why and how to develop asset management plans (pages 28–29). CBW Silver Corporate Member Pulse also contributed significantly to this issue through Eric Lillard's article on data breaches (page 32).

Our sincere thanks to all CBW member banks, partners, corporate and associate members who contributed information, photos, and articles to this issue. We welcome your submissions—even when space, timing, and other considerations (for instance receiving three stories on the same theme) may preclude us from using them all. Your stories are the foundation of your association's magazine.

Taken together, your stories and this magazine help create the voice of our association. Your collective stories are one reason that Community Bankers of Wisconsin's voice rings out so strong and clear—particularly during April Community Banking Month.

Whenever and wherever CBW has the opportunity and means to speak, our association speaks clearly, intelligently, and reasonably. Like all of our member banks, CBW puts Wisconsin's consumers and communities first. The focus is on service.

And people can tell. Listeners know that in Union Grove as in other cities, towns, and villages throughout the state, community banks can be counted on to tell the straight story. We all know it: there's a reason that CBW and its national partner ICBA are respected in political and media circles. And that reason goes back to the culture and practices found in every one of our member institutions.

Thank you for the role you play in our success.

Stan

Stan Leedle is Executive Vice President of Choice Bank in Oshkosh

SERVING YOU

Daryll J. Lund, CAE, CBW President and CEO

New App Puts ATM Access Network in Customer's Hands

In response to the growing number of consumers using mobile devices to communicate, get on the Internet, and find local businesses, Community Bankers of Wisconsin is launching an ATM Access app. It allows your bank customers to quickly locate surcharge-free machines that are part of our ATM Access network. It also helps them find surcharge-free machines across Minnesota, thanks to CBW's partnership with the Independent Community Bankers of Minnesota.

The ATM Access app can help strengthen customer relationships.

Customers who want to withdraw their money without paying extra fees now have an easy way to find hundreds of surcharge-free ATMs. When they click on the ATM Access icon, the app opens a map and uses GPS to quickly pinpoint the surcharge-free ATMs closest to their current location.

The app is also useful to customers who are planning trips. When the customer enters the name of a city, the app will immediately list the nearest ATM Access locations to that city.

It can help your bank strengthen customer relationships, according to several banks that have tested it. Ryan Galligan, personal banker at Fox Valley Savings Bank's Fond du Lac branch, said, "The app gives you ATMs by location or by using your GPS. I really like that function and I am sure our customers will also."

To get the app, customers download it to their smartphone. They can easily find and download it from the App Store on their iPhone or from Google Play on their Android. In addition to the new app, customers can continue to locate surcharge-free machines through the ATM Access finder tool on CBW's website, www.communitybankers.org.

When you join the network, you retain the option to place a surcharge on transactions by non-ATM Access cardholders. Your bank also enjoys the opportunity to increase interchange fee income for a low membership cost.

Since 1997, CBW member banks have found that the ATM Access network helps them compete with larger banks. If your bank is not already a member of the ATM Access network, I invite you to consider how your customers might benefit through the broad range and numerous machines available. We are pleased to offer this added convenience to ATM Access network community banks and their customers.

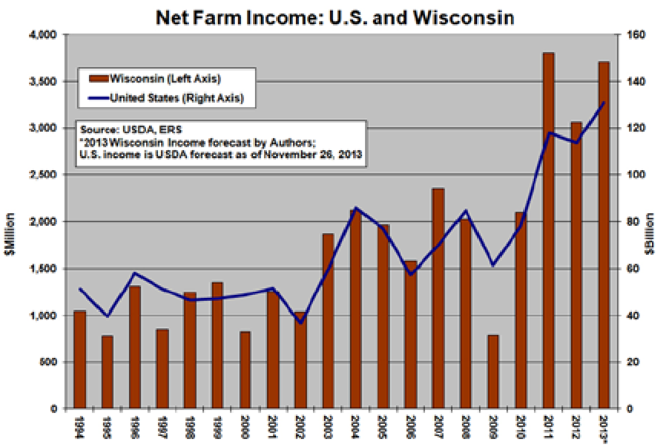
Daryll

Reach Daryll J. Lund at *daryll@communitybankers.org*.

Wisconsin Agriculture:
Good Balance Sheets, Strong Earnings

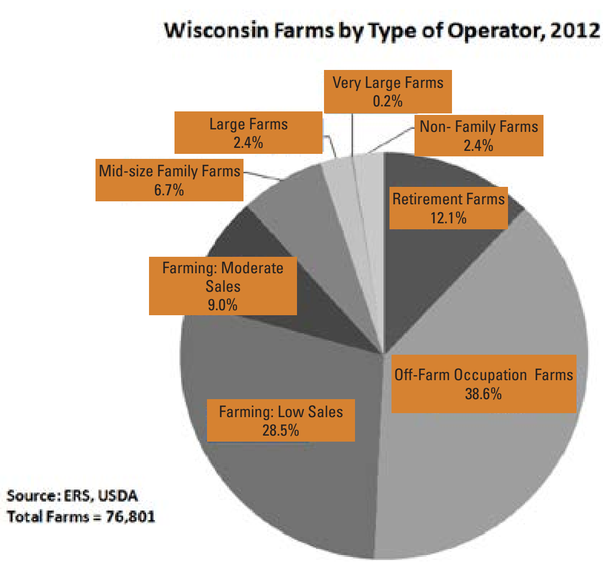
Mary Lou Santovec

Wisconsin farmers experienced a silver lining in the stormy economic clouds of 2013. According to the annual Status of Wisconsin Agriculture report from the University of Wisconsin-Madison's Agricultural and Applied Economics Department, the state's net farm income increased by some 14 percent to $3.75 billion.



"The agricultural economy is on the upswing," said Rick Klemme, dean, UW-Cooperative Extension. Klemme made his remarks at the annual Wisconsin Agricultural Economic Outlook Forum held early this year at UW-Madison.

The number of farms remains stable at 76,800 (approximately 10,500 are dairy) from a high of 200,000 in 1940. Most are considered low sales (less than $150,000 in gross income), off-farm occupation farms (operators who report farming isn't their primary occupation), and retirement farms (where operators report being retired).



Other statistics: The average farm measured 195 acres. In 2012, the average age of the Wisconsin farmer was 56.

In a "renaissance of the dairy industry" last year, the all-milk price was $20.25 a hundredweight, remarkable given the rest of the economy's sluggish recovery, Klemme said. Milk production set a new high of 27.7 billion pounds.

Diversity within the industry helps even out the peaks and valleys of volatile milk prices and leads to "very strong earnings reaped by Wisconsin farmers," said Bruce Jones, professor of agricultural and applied economics.

Record earnings over the past three years have resulted in a stronger collective balance sheet. In 2012, the debt-to-asset ratio was 13 cents per dollar while in 2013 it was 11 cents. Assets have increased $12 billion over the past five years.

Farmers are "taking their earnings and retiring debt," Jones said. Mortgage debt declined some $600 million from 2011 to 2012 while the value of farmland and buildings grew more than $2 billion during that same time.

US Economy

The Federal Reserve's monetary policy impacts domestic food demand and agricultural exports. It's also kept commodity prices down.

Unemployment and the labor force will influence future growth of the nation's economy. "Unemployment has not been shared equally across the economy," Jones said. Unemployment has hit college graduates seeking jobs harder as more people 55 and older are staying in the workforce.

The United States is still running a negative trade imbalance. The value of the dollar against its trading partners hasn't risen but is holding steady. Fortunately there's been no slippage in agricultural exports.

With a favorable exchange rate, foreign consumers bought a record $140.9 billion of agricultural exports. Most exports headed to Mexico, Canada, and Asia.

Farm Inputs

The price of fertilizer, feed, and fuel are about the same as they were in 2012. Cash rents remain high although fuel prices are down.

For 2014, the outlook on farm input prices is mixed. Corn and soybeans will register lower prices. Energy inputs such as gas, diesel, and propane will be driven by crude oil prices and the extraordinarily long, cold winter. Costs for capital equipment and labor are going up.

Interest rates are hovering around 5 percent. Loan demand has seen a steady decline while repayments have been up since 2010.

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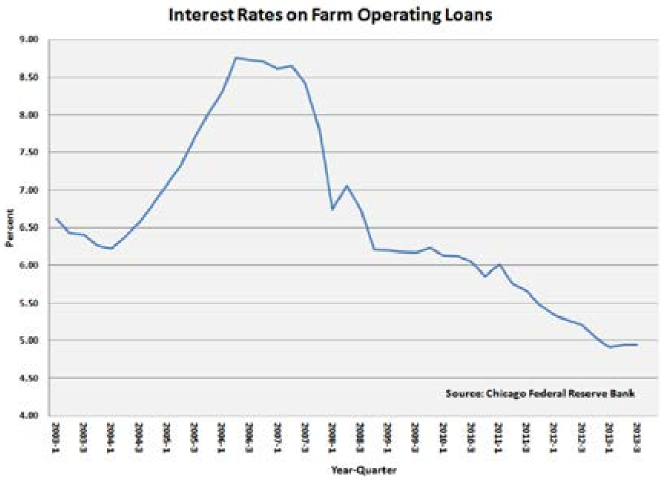
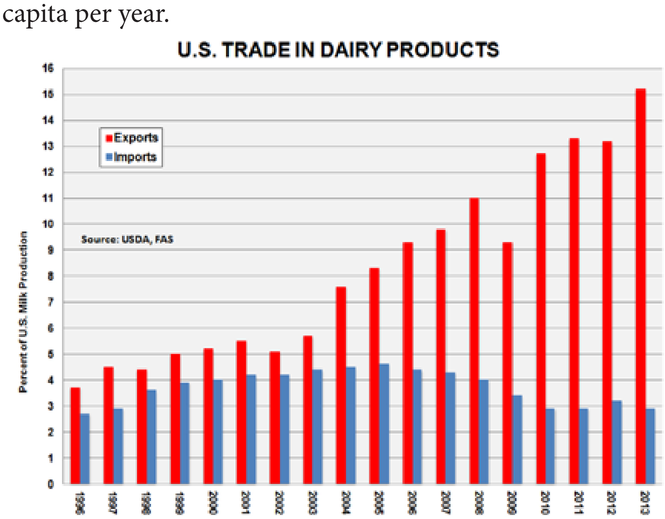
BANK



The bottom line? Farmers are making money, have good incomes, and are using their income to retire debt.

Dairy

Forecasts for dairy remain rooted in the market fundamentals, according to Mark Stephenson, director of the Center for Dairy Profitability. Fluid milk on a per capita basis has declined but total sales are stable due to population growth and changes in breakfast habits. Consumers have shifted from cold cereal to yogurt with a preference for Greek yogurt. Cheese has been the real driver behind increased demand for dairy and is now up to 30 pounds per capita per year.



Not only is domestic consumption for all types of dairy products up, the U.S. is feeding the world—exporting more and importing less. Wisconsin has done especially well in milk production when compared with the drought-stricken West and the Southwest.

Livestock and Poultry

Meat production in 2013 was flat and will be lower in 2014, predicted Brenda Boetel, an agricultural economist and extension agent at UW-River Falls. Total U.S. meat production was 93.3 billion pounds in 2013, declining from a high of 93.9 billion pounds in 2008.

Broiler production was up—chicken farmers hit a new record in 2013 and Boetel expects an additional 3 percent rise in 2014. Turkeys are down, and pork production is flat, while beef production is down 1 percent. "Retail meat prices will be higher in 2014," Boetel predicted.

Corn and Soybeans

A late, wet spring in 2013 meant high prices for corn and soybeans. Boetel expects to see big increases for corn this year. "The U.S. will regain its spot as the leading exporter of corn in 2014."

Last year Wisconsin planted 1.6 million acres of soybeans and harvested 1.55 million, with a yield of 43.3 bushels per acre. But the supply of beans is high with bean production in Brazil and Argentina impacting U.S. exports.

There will likely be large stocks of corn and beans for 2014. "Producer commitments for rent and inputs require $4.60 per bushel for corn and $11.13 per bushel for beans," Boetel said. She advised farmers to be careful about carrying and storing corn and beans into the summer. "Look for marketing opportunities now."

Potatoes and Cranberries

Potato production was down between 2012 and 2013. Last season was late in planting but long in growing. Wisconsin farmers planted 63,000 acres and yielded 27.4 million cwt (hundredweight). The improved market for fresh potatoes produced higher returns for growers.

For the 19th year, Wisconsin was the top producing state for cranberries at 5.5 million barrels. Prices remain suppressed due to the large supply and steady demand.

Other trends: consumption of canned vegetables—peas, green beans, and sauerkraut—is down while cut-and-peel carrots are one of the fastest growing fresh produce items. Farmers can expect to see increasing competition from fresh market vegetable farms and urban food systems.

Grow Profits with Non-Interest Income

Mary Lou Santovec

The competitive landscape for community banks continues to be challenging, and bankers find they have to be more nimble and entrepreneurial than they historically have been.


David Saber

Characteristics such as "innovation, creativity, and outside-the-box thinking" will play a role in competitive differentiation and in how banks generate non-interest income and other revenue streams.

"The non-quantitative factors will play a larger role in bottom line profitability," said David Saber, a presenter at CBW's BOLT Leadership Summit in December. "Strategy execution will be critical. While we focus on the numbers as bankers, they are ultimately not the plan. How well you execute strategy will ultimately drive bottom line profitability."

Saber, who formerly worked at the Federal Reserve Bank of New York, leads Wipfli's Financial Institutions Strategic Advisory practice and is on the practice's senior management team.

"Profitability," he said in a follow-up communication, "is becoming more difficult and banks have to realize that there is a limit to expense reduction and recapturing highly funded loan-loss provisions … profitability must come not only from expense control but from the ability to grow revenue!"

Historically, a significant percentage of a bank's profitability came from interest income. But with the fruits of the Great Recession being cheap loans and lack of demand, banks no longer can rely on margin.

In these unprecedented times, the core business model must be examined to decide what strategies will maximize shareholder value and ensure ROI. What has historically succeeded will not be the recipe for success in the future.

"Non-interest income is becoming an increasingly important part of overall profitability." Some banks—generally the larger ones—are generating healthy amounts of income through fees and other lines of business.

But community banks are relationship-based. It's hard for community bankers to look at their customer across the table and tell them that the bank is going to charge for overdraft protection or for a checking account. How can we ask our customers to pay for something they were once getting for free?

Saber shed some light on human behavior pointing to those who go to Starbucks every day and purchase a $5 coffee drink when their offices provide free coffee. "They are willing to pay for that [perceived] value … but are unwilling to pay for a value-added service from their bank?"

The price for everything is going up. Banks are seeing rising costs for technology, staffing, vendors, and compliance. Mobile banking and core processing platforms are big-dollar purchases that most banks will have to make to remain competitive. How will your bank recoup those costs?

Banks are pretty good at saving money. When faced with a drop in revenue, the first response always seems to be to cut costs. Cutting expenses is far easier than growing revenue. But what happens when there's nothing left to cut?

"As many businesses, banking is likely roughly 70/30 or 80/20, with 20 or 30 percent of the customers producing 70 to 80 percent of the revenue. Banks have a lot of accounts that are actually unprofitable."

Some banks are really good niche players while others have more diversity in what they offer. "I do think it's time for some institutions to get more focused on their most profitable customers while balancing the entire customer base. It's getting increasingly difficult to be all things to all people."

Contact David Saber at 952-548-3364 or dsaber@wipfli.com.

BOLT Participants Brainstorm

Saber led an exercise in which BOLT participants suggested ways to improve a bank's bottom line. Among them:

✔ Charge for new and upcoming technology.

✔ Automate some practices by installing lobby kiosks.

✔ Get the right people in place and get training for your board.

✔ Combine a new branch with a coffee shop, a travel agency, estate planning.

✔ Offering a one-stop shop for trust services, wealth management, and tax preparation. Train staff to become trusted advisors.

✔ Develop expertise in a specific area.

✔ Train staff to be quick, accurate, and consistent.

✔ Offer treasury management services.

✔ Maintain CAMEL ratings and stay true to your culture.

✔ Develop an online chat room where people can ask questions to reduce traffic to brick-and-mortar sites.

✔ Add merchant card services.

✔ Employ internal software to help employees develop leadership skills.

✔ Provide cash management services for small businesses.

✔ Offer investment/401(k) products.

✔ Sell the services you do as a bank in an "IT branch."

✔ Hire for attitude, teach for knowledge, and profits will come.

✔ Improve efficiencies, streamline processes.

✔ "Convert customer ignorance into loyalty." Teach them what they want. Expand the definition of relationship building.

✔ Have bankers go out to homes to do mortgages and to businesses to sell business services. Bring the branch to the customer.

✔ Transform branches into something that the community needs like meeting rooms with technology.

✔ Sell credit collection, marketing, and title company services.

✔ Say "no" to opportunities that aren't sustainable.

Trust Risk Assessments: A Fiduciary Must

Trust-related activities expose banks to many of the same risks encountered in traditional banking activities. For example, operating (transaction), strategic, legal, compliance, credit, settlement, market, liquidity, and reputational risks may be present both for trust departments and bank operations. Some risks may result directly from trust department or bank processes, while other risks may be inherent in the assets purchased or held in client accounts.

In addition to the risks noted above, banks with trust departments are subject to other risks. The primary duty of a fiduciary is the management and care of property (assets) for customers. This responsibility requires the duty of loyalty, the duty to maintain clear and accurate account records, the duty to preserve and make trust property productive, and a myriad of other responsibilities. These responsibilities also bear risk, and management's ability to control these risks is of paramount importance.

Effective control includes proactive oversight by the board of directors. Senior management should identify, measure, monitor, and address the risks inherent in fiduciary activities; however, effective control also involves the ability to respond appropriately to changing business conditions, applicable regulatory pronouncements, changing fiduciary laws and regulations, unique or unusual fiduciary assets, or changes to personnel and department structure. Ultimately, the bank's reputation may be damaged if management is unable to identify and properly manage these risks.

Internal policies, documented procedures, and other controls should be designed to address the risks facing the trust department. The size and complexity of the trust department will dictate the depth of such policies, and a formal trust department risk assessment should be implemented to augment the control structure for trust department risk.

A well-designed risk assessment should cover multi-year periods and be used to guide audit testing to measure controls and compliance with internal policies and procedures. The risk assessment should be updated at least annually and reviewed and approved by both the trust committee and the board of directors to ensure the continued effectiveness of the control structure. As risks change, the risk assessment is a great resource to ensure resources are allocated to address the areas or functions that present the greatest risk to the trust department.

An effective risk assessment should identify those areas that could potentially expose the bank to liability that results from lawsuits or ineffective administrative practices. Strong internal controls, sound policies and procedures, appropriate management information systems, and adequately trained employees provide the basis for an effective risk assessment. Risk tolerance levels should be clearly set and monitored by both senior management and the board of directors.

Bank regulators are actively looking to determine whether a risk assessment is in place, and examinations often include a review of the risk assessment to confirm that audits are being completed in accordance with the timing as set forth in the risk assessment. According to the FDIC's Trust Examination Manual, at a minimum, an effective risk assessment should:

- Establish the level of risk that management is willing to assume. Examiners will review the planning process, policies related to the process, and underwriting standards of accounts and new products.
- Identify the various risks associated with the bank's key products and services, as well as the operating environment. This includes an analysis of methods employed in determining fiduciary insurance coverage, loss reserves, and the impact of fiduciary risk on capital adequacy. Litigation concerns should also be analyzed.
- Implement adequate controls and monitoring systems. This includes establishing a system of checks and balances and reviewing audit coverage, the compliance management system, and the overall scope and reliability of existing management information systems.
- Include supervision of operations and the implementation of procedures when new accounts are obtained. Guidelines should provide information on day-to-day management of fiduciary activities, operating systems, and internal controls.

A bank that utilizes a continuous audit process instead of an annual audit process for its trust department is able to perform audit testing on an activity-by-activity basis, at intervals commensurate with the level of risk associated with each activity. The audit frequency should be defined in the risk assessment; however, audit intervals should be reassessed periodically to ensure continued appropriateness given the current risk environment and volume of the activity being audited.

A trust department risk assessment is an ongoing tool that should be used to measure and report risks associated with the trust department in relation to the bank as a whole. By utilizing this effective tool, the bank's board may demonstrate to regulators that it is meeting its fiduciary responsibilities by being proactive, having a process in place to evaluate risk, and allocating resources and personnel to areas of greatest risk.

By Julianne Hoffmaster,
Senior Specialist

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CPAs and Consultants
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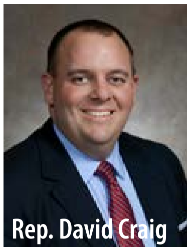
Governor Signs Bank Records Retention Bill

The State Senate and Assembly passed the CBW-supported Senate Bill SB-520 (AB-649), which streamlines the bank record retention requirements for state chartered banks, savings banks, and savings and loan associations. Governor Walker signed the bill on April 16 (Act 277).


Rep. David Craig

Act 277 will provide state-chartered financial institutions increased flexibility with bank record retention requirements by eliminating the current schedule of documents in DFK Bkg 9, Retention of Books and Records. CBW worked with sponsors Sen. Frank Lasee and Rep. David Craig, as well as other lawmakers, on the adopted records retention language. As proposed in SB-520, the bank records retention language will read as follows:

> *Each bank shall retain its records in a manner consistent with prudent business practices and in accordance with this chapter and other applicable state or federal laws, rules, and regulations. The record retention system utilized must be able to accurately produce such records.*

Banks are in the best position to determine the appropriate records retention period based on their own risk assessment. And, these record retention updates will help reduce regulatory burden on Wisconsin's state chartered financial institutions.

Lead sponsor of SB 520, Senator Frank Lasee stated:

> *SB 520 (Act 277) gives banks the flexibility to implement records retention policies that utilize electronic imaging and other current technologies, ultimately making the process more efficient.*

Lead sponsor of AB 649 (Act 277), Rep. David Craig, concurred:

> *With changes in technology making it easy to transfer a warehouse full of files into a single laptop, it became apparent to me that our state's regulations were not keeping up with modern advances in technology. This simple change will allow banks to manage their records retention policies in a manner that fits their business model rather than tying them down with bureaucratic requirements created decades ago.*

Thanks to the efforts of Rep. Craig, Sen. Lasee, and many other lawmakers, public officials, and community bankers, this legislation promises to lessen the regulatory burden of state-chartered financial institutions.

Brewers Partner

WAUWATOSA—WaterStone Bank and the Milwaukee Brewers Community Foundation will each donate to the Sojourner Family Peace Center for every strikeout recorded by a Brewers pitcher at Miller Park during the 2014 season. The bank is the new corporate partner for an in-stadium promotion called "WaterStone Bank's K's for a Cause."

Community State Bank Hosts Business Economic Forum

Community State Bank, Union Grove, hosted over 120 business professionals and guests from throughout Racine County at a March Business Economic Forum, held at Michael's on the Lake in Kansasville.


Community State Bank President Scott Huedepohl welcomed attendees.

After a brief presentation by CSB President Scott Huedepohl, Racine County Executive Jim Ladwig took the floor with a presentation and discussion focusing on the current economic state of the county.

Next, President and CEO of Runzheimer International Greg Harper shared his expertise on "Total Employee Mobility," a management approach to help all organizations improve the bottom-line performance of their mobile workforce. For Harper, the mobile workforce includes people who relocate, telecommute, travel, and use mobile devices to conduct their work.

"This was a great opportunity to bring professionals and business leaders throughout the county together to share candid points of view," Huedepohl said. "I'd like to thank everyone that was able to attend, and offer our sincere appreciation to our guest speakers, Greg Harper and Jim Ladwig. They took time out of their busy schedules to help make this event a tremendous success."

The bank plans to build on the success of their initial forum and develop it as an annual event.


Runzheimer International President and CEO Greg Harper discussed high performing organizations and the mobile workforce.


Racine County Executive Jim Ladwig focused on the current economic state of the county.


ARE YOU READY TO TAKE YOUR DEBIT PROGRAM
IN A FRESH, NEW DIRECTION?
DIFFERENT
THE USUAL
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SAME OLE
Welcome to Different.
A place where breakthrough ideas are born. Ideas to help grow your business. Like the PULSE Discover® Debit program offering a fresh approach to signature debit with superior economics, brand flexibility and strong fraud prevention tools. *Find out why Discover Debit is a better choice for signature debit at* **PulseNetwork.com/Different**
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2014 Security Workshop

Chad Knutson on Electronic Crimes: Trends and Issues

Doris Green

Forget Stephen King thrillers and never mind roller coaster rides. If you really want to make your hair stand on end, plan to attend CBW's 2015 Security Officers Workshop next spring. The 2014 workshop proved an eye-opener for new community bank security officers, in addition to providing valuable reminders and updates to seasoned officers.

More than 100 participants attended the workshop at the Wisconsin Dells location, the third and final presentation held across Wisconsin in March. The maximum capacity crowd learned many basic facts—for example, there were 116 bank robberies in the state last year and the robbers are getting younger, perhaps partly due to increasing heroin use across the nation.

Yet the most frightening facts related to technology and cyber crime. "Cell phone and mobile banking exposes us more than ever," said Rick McGuigan, CBW executive vice president. Mobile banking automatically carries a medium-level risk at a minimum. "Technology is doubling every 18 months, and this change is accelerating."

How to keep up?

Chad Knutson, Secure Banking Solutions (SBS) senior information security consultant, recommends "a layered approach." Taken individually, most security controls can be hacked, but putting multiple controls in place is "overall, a good prevention model." In addition to passwords, PINs, and other technical controls, educating consumers belongs in any bank's security toolkit.

Employee education is also crucial, McGuigan said. "Frontline employees are your best defense, even with wire transfers and ACH."

In fact, "you can't train staff enough," Knutson said. "There are always vulnerabilities and new risks."

He advised supervisors to prohibit employees from browsing the Web or conducting any personal activities online while at the bank. "There's always a risk."

When employees bring their own device (BYOD) to work with bank data in the office, Knutson urged the bankers to inventory all personal devices and develop policies for their use in the bank. While BYOD enables employees to use social media while at work and may reduce a bank's technology costs, he encouraged the bankers to carefully consider the potential

risks and vulnerabilities—from data breaches to liability, insurance, and theft.

In considering bank-owned computers, Knutson recommended using separate computers for e-mail and wire transfers. Separating the bank's computer systems can reduce the risk of a data breach spreading from one system to another.

This simple step might have thwarted the 2013 Target data breach in which employees at an HVAC firm were the victims of a malware-laced

Growth in Mobile Banking, Payments Continues

The use of mobile phones to access bank and credit card accounts continued to increase, according to a March report by the Federal Reserve Board.

The Fed's latest report on the use of mobile financial services found that 33 percent of all mobile phone users and 51 percent of smartphone users had used mobile banking in the past 12 months as of December 2013. This is up from 28 percent in December 2012 for mobile phone users and 48 percent for smartphone users.

The use of mobile phones to make payments at the point of sale has grown substantially over the past several years, increasing threefold between 2011 and 2012 and again between 2012 and 2013. Last year, 17 percent of smartphone owners, representing 9 percent of the U.S. adult population, reported having used their phone to make a purchase at a retail store in the previous 12 months.

e-mail phishing attack and in turn infected the giant retailer through its vendor portal. From the vendor portal hackers were able to infect many point-of-sale systems. Target learned the hard way that its vendor portal and point-of-sale systems should remain separate. In the end, 40 million cards and 70 million customer records were hacked.

While the media rightly made much of the Target breach, the truth is that cyber security breaches have become commonplace. "There are so many small breaches all the time," Knutson said, "that no one knows what the whole picture looks like."

To be fair, Target actually did a good job in communicating news of the breach to consumers, according to Knutson. Target's communications efforts were quite fast, compared to the victims of previous incidents. And the extensive media coverage increased public awareness of electronic crimes.

Among many lessons to learn from the Target breach:

Continually review your IT risk assessment plans and efforts.

Review payment processors and other vendor relationships—for instance, have you asked all if they no longer use Windows XP?

Stay up to speed with security trends.

Never stop learning!

"Banks can't be perfect," Knutson said, "but they need to be less vulnerable than anyone else."

Students Learn Financial Literacy with MyLIFE

Mary Lou Santovec

Can I really afford that new smartphone? Some 225 seniors at Union Grove High School now know whether or not they can—thanks to a program offered by Community State Bank. Another 225 freshmen, sophomores, and juniors at Shoreland Lutheran High School in Somers will find out this year, also thanks to MyLIFE (My Local Interactive Financial Education).

The bank-designed and branded program is intended to "change the way students see their future by placing them in real-life situations, making real-life decisions, and showing them how those decisions impact their personal financial position," said Jeff Nielsen, assistant vice president and marketing director, at the Union Grove bank.

The program began in 2013 with juniors at the local high school. Each student chose a career path, number of years of college, and the number of pets. From there, they were randomly assigned a "life" that included marital status, credit score, annual salary, health insurance, children, child support if applicable, and student loan and credit card debt, if applicable.

Once they had their "biographies," they entered the high school gym, which was filled with stations staffed by volunteers from area businesses and nonprofits. The students visited each station, attempting to build a financial life based on their wants and needs. For example, one junior, Jacob Noll, found himself as a divorced father of three who was struggling to pay his bills with income as a full-time firefighter.

Noll was required to manage a

monthly budget on his firefighter's salary. The budget assigned costs for housing, insurance, groceries, transportation, child support, automobile expenses, even health emergencies and other unexpected expenses.

During the simulation, some students suddenly received a ticket from the local sergeant for "texting and driving." A nurse walked up to another student, assigned an illness, and asked about health insurance coverage.

Students had to stop and get a stamp at each station whether or not the topic applied to their assigned situation. A Help Desk walked them through solutions if they suddenly found themselves with more month than money.

With its 24 business and civic partners and 55 volunteers from the school, the bank, and the surrounding community, the MyLIFE program was more than beneficial to the students,

myLIFE
LOCAL INTERACTIVE FINANCIAL EDUCATION

it was "a handshake to the community," Nielsen said. It also was "a great marriage between the business community and the high school. The businesses get to help educate the next generation."

MyLIFE was one of 52 financial literacy programs submitted for consideration to the Governor's Council on Financial Literacy. Community State Bank was the only bank among the 20 award winners receiving the 2013 Wisconsin Financial Literacy Award.

Wisconsin Bankers Appointed to ICBA Committees

Wisconsin community bankers have often stepped up to take on leadership roles with CBW's national partner, Independent Community Bankers of America (ICBA). These CBW bankers recently agreed to serve on ICBA committees:

- John Slatkty, Bank of Luxemburg—Bank Operations and Payments Committee
- Rick Busch, Royal Bank, Gays Mills—Bank Services Committee
- Butch Pomeroy, International Bank of Amherst—ICBA Political Action Committee
- Stephen Eager, Union Bank & Trust, Evansville—Subcommittee on Lending
- Paul Hoffmann, Monona State Bank—Subcommittee on Lending

In addition, CBW President and CEO Daryll Lund has been appointed to the ICBA Federal Delegate Board. Thanks to all for volunteering their time and expertise!

April Proclaimed Community Banking Month

CBW President and CEO Daryll Lund (left) with DFI Secretary Peter Bildsten (center) and CBW Executive Vice President Rick McGuigan.

'Top Workplace' WaterStone Builds Community from the Inside Out

Heather Zydek
Community Relations Coordinator, WaterStone Bank

WaterStone Bank has been known for decades for its high-caliber customer service and commitment to the community. A growing financial institution with retail banking branches in nine locations around Milwaukee and a new commercial real estate branch in Minneapolis, Minn., we pride ourselves on our ability to provide an unparalleled banking experience for our customers and, as a fully public company, outstanding value for our shareholders.

Our excellence as a community bank in many ways can be traced back to the health of our work culture. Recognized as a "Top Workplace" four years running in the Milwaukee Journal Sentinel's annual assessment of best workplaces in Milwaukee, WaterStone Bank is committed to striking a healthy work-life balance and promoting employee well-being. Our community banking services are strong because our internal community is a healthy one.

"To be successful in the marketplace you must first be successful in the workplace," said Doug Gordon, President and CEO of WaterStone Bank. "At WaterStone, that means providing a work culture that emphasizes family values and teamwork."

WaterStone is known for providing incredible personalized service to its customers, but the bank also provides employees with a great work environment, opportunities for personal and professional development, and exemplary benefits. The bank continues to receive the highest marks from our employees in management support and work expectations, highlighting management's support for employee growth through education and training and the flexibility and satisfaction of working for the WaterStone Bank team.

WaterStone Bank provides employees with the feel of a smaller organization while offering the benefits of a large organization. The bank allows employees to express ideas and offer solutions to issues the company may face.

When asked what is most meaningful about working at WaterStone, one employee responded, "The sense that everyone participates in the accomplishments. I believe it is understood by all employees of WaterStone that without the support of one another, we get nowhere."

WaterStone Bank understands that finding the balance between work and home is important to employees, and addressing those needs is a priority. The bank provides employees with on-site workout facilities, passes and discounts to area attractions, on-site dry cleaning pick-up and drop-off, flexible schedules (in some departments), an Employee Assistance Program, and many other work/life options.

"People really enjoy working at WSB because we provide them with an opportunity to be more than just a number," said Ian Konrath, Assistant Vice President of Human Resources and Training at WaterStone. "Being a smaller organization allows us to provide our employees with the work/life balance they are looking for and most positions provide the opportunity for a flexible schedule."

In addition to flexible schedules and a healthy work/life balance, the bank offers on-site banking industry training, an education reimbursement program, external training options, and more.

Learn more about WaterStone Bank at www.wsbonline.com.

Community Bankers of Wisconsin Corporate/Associate Members 2014

Gold Corporate Members

Bankers' Bank, Madison
BOSC, Inc., Milwaukee
Community Bankers Financial Services, Eagan, MN
Executive Benefits Network, Milwaukee
Federal Home Loan Bank of Chicago, Chicago, IL
ICBA Bancard, Washington, DC
ICBA Mortgage Corporation, Washington, DC
ICBA Reinsurance, Washington, DC
ICBA Securities, Memphis, TN
ICBA Services Network, Washington, DC
McGladrey, Madison
Travelers, Brookfield
Wipfli LLP, Milwaukee

Silver Corporate Members

CliftonLarsonAllen LLP, Middleton
PULSE, Houston, TX
Shazam, Baraboo
West Bend Mutual Insurance Company, West Bend
Young & Associates, Inc., Kent, OH

Bronze Corporate Members

Baker Tilly, Milwaukee
Bank Compensation Consulting, Inc., Plano, TX
Center for Financial Training, Whitefish Bay
Chubb Group of Insurance Companies, Chicago, IL
Computer Services, Inc., Paducah, KY
Fiserv, Inc., Brookfield
Secure Banking Solutions, LLC, Oregon
Spectrum Investment Advisors, Mequon

Associate Members

American Deposit Management, LLC, Delafield
Anastasi Jellum, P.A., Stillwater, MN
Associated Bank-Financial Institutions, Milwaukee
Axley Brynelson, LLP, Madison
B$ Recruiters, Hartland
BancVue, Austin, TX
Bank Holding Company Association, Edina, MN
Bell State Bank & Trust, Fargo, ND
Benning Group, LLC, Monroe
BMO Capital Markets, Milwaukee
CASE, Anoka, MN
Central States Health & Life Company, Wautoma
Corporate Business Systems, LLC, Madison
Coulee Region Solutions, LaCrosse
D&H, Mequon
DCS Netlink, Rice Lake
Diebold Incorporated, Brookfield
Dougherty & Co. LLC, Minneapolis, MN
Eckberg, Lammers, Briggs, Wolff, Hudson
Edelman & Co., Ltd., Milwaukee
Edge One, Inc., Stoughton
Elite Payment Systems, Brookfield
Environmental Data Resources, Milford, CT
Experis Finance, Madison
Federal Reserve Bank of Minneapolis, Minneapolis, MN
Financial Insurance Admin., Madison
Financial Marketing Corporation, Palmyra
Godfrey & Kahn, S.C., Milwaukee
Golden Rule Coins, Geneva, IL
Hansen & Young Inc., Prairie Farm
iHELP Private Student Loan Program, Minneapolis, MN
Incapital, Boca Raton, FL
Integrated Security Solutions, Cottage Grove
LaMacchia Group, LLC, Milwaukee
Lasco, Marquette, MI
Lerdahl Business Interiors, Middleton
Locknet-A Division of EO Johnson Office Technology, Onalaska
M3 Insurance, Madison
Magic-Wrighter Inc., Grand Rapids, MI
Michael Best & Friedrich, Milwaukee
MoneyWise Mortgage, Marshfield
MRA-The Management Association, Waukesha
Northland Securities, Inc., Minneapolis, MN
NuSource Financial Inc., Eden Prairie, MN
PMA Financial Network, Inc., Naperville, IL
Premier Check Printing, Lakeville, MN
Quarles & Brady LLP, Milwaukee
Ruder Ware, L.L.S.C., Wausau
Sara Investment Real Estate LLC, Madison
Shannon Law Office, LLC, Evansville
Simplifile, Provo, UT
SNL Financial Company, Charlottesville, VA
SPC, Blaine, MN
Superior Safe & Security, LLC, Green Bay
The Baker Group, Springfield, IL
The Redmond Company, Waukesha
Von Briesen, Purtell & Roper, S.C., Milwaukee
WHEDA, Milwaukee
Whyte Hirschboeck Dudek S.C., Madison
Wisconsin Business Development, Monona

CBW Members Attend ICBA National Convention

The 2014 ICBA Community Banking Live annual convention took place in Honolulu, with a stellar lineup of expert speakers and nearly 60 workshops. The March convention also featured an Expo with 150 vendors showcasing the latest community banking concepts, solutions, and technologies.

Here are photos of CBW folks captured at the Midwest reception; how many of your community banking colleagues do you recognize?

WISCONSIN COMMUNITY BANK ANNIVERSARIES

Wisconsin's community banks are among the most stable businesses in the state. A total of 151 of the state's banks will have reached the century mark by year-end 2014. A half dozen have celebrated their sesquicentennials. Congratulations to the following community banks celebrating benchmark anniversaries in March, April, and May of 2014!

130 Years
Bank of Milton, on March 25

120 Years
First Bank, Tomah, on March 1

115 Years
Bank of Cashton, on March 15

105 Years
First Business Bank, Madison, on May 1

95 Years
Community Bank of Northern Wisconsin, Rice Lake, on May 5

80 Years
Security Financial Bank, Durand, on April 6
First National Bank in Tigerton, on May 19

25 Years
Community Bank & Trust, Sheboygan, on May 15

15 Years
The Business Bank, Appleton, on March 1
Bank of Wausau, on May 25

Reduce Risk, Maximize Return
Why an Asset Management Plan Should Be a Priority

Jason E. Kuwayama, Godfrey & Kahn

A bank client asked me to review a letter of intent from a company that was interested in purchasing a sub-performing loan from them. The loan was facing a maturity default after years of forbearances and modifications. The letter required that the borrower remain in business as a condition to closing the loan purchase—a fair contingency for a loan secured only by the assets of a going concern.


Jason E. Kuwayama

But it was too late.

The day after we received the letter of intent, the borrower closed its doors, and the bank was left with, at best, a 10 percent recovery based on a liquidation of its borrower's inventory. The resulting loss exceeded one million dollars.

This bank's experience underscores the need to have a well-developed asset management plan.

An asset management plan is not necessarily an "asset disposition" plan. While an asset sale strategy continues to be effective for some banks, it is not necessarily the ideal strategy for other banks or for all impaired credits.

Although many banks survived the post-Lehman apocalypse, the "walking dead" economy highlights the need to create a credible and thoughtful management plan for your entire portfolio, including assets that might not appear yet on your watch list.

Developing an Asset Management Plan

When developing an asset management plan, think critically about your portfolio generally and each loan specifically. What's your end goal for each credit? Why are you entering into a forbearance agreement? Is the forbearance agreement delaying the inevitable? Is this borrower cooperative? Thinking critically requires you to consider the foreclosure and litigation costs, the carrying costs, and the future accounting losses.

For example, if your collateral consists of a flagged hotel, then it might not make sense to initiate a foreclosure if, in the end, you are left owning and operating a hotel (because the foreclosure and carrying costs will be considerably high). On the other hand, if your collateral consists of rural land, then you might consider foreclosure.

Here are a few tools to consider when exploring options for your portfolios and distressed credits:

Asset Sales

Asset sales remain a popular option for loans that already are impaired or written down. The market for non-performing and sub-performing loans is robust, with pricing regularly between 50 and 80 percent of the outstanding principal balance (depending on asset quality and collateral type).

The best note sale candidates still leave the purchaser with some options. In the example at the beginning of this article, the bank waited too long to sell the note successfully. A common misconception is that note sales are, or can be used only as, a last resort. Rather, they are strategic dispositions for credits that would be difficult to rehabilitate due to financial regulations, accounting rules, or a general lack of cooperation from the borrower.

Although asset sales are not guaranteed to bring the highest proceeds on a per-loan basis, the transactions are almost always cash-only with quick closings, resulting in an immediate paydown and corresponding improvement to your NPL ratio. For the past two years, many banks have achieved net recoveries on their balance sheets due to asset sales.

Forced Collateral Management and Borrower Analysis

Some borrowers actively work to refinance, recapitalize, or substantially pay down (or pay off) their loans. Unfortunately, finding a new lender or capital partner can be costly and time-consuming. And the process is further complicated or delayed by the daily demands dictated by the borrower's financial condition.

When dealing with a cooperative borrower, especially where the collateral consists primarily of the assets of a going concern, consider hiring an outside consultant to review historic cash flows and financials, as well as to assist in the day-to-day management of the company. In addition to providing an independent financial picture of your borrower, turnaround consultants might help arrange equity investments or find an acquirer of the company or its debt.

Recall the letter of intent referenced at the beginning of this article. Unfortunately, the company that submitted the letter of intent was unable to evaluate the borrower's financial position because the financials were not well maintained and the borrower's management had lost its focus. The combination of disorganized financials and a distracted management team resulted in significant time delays and a reduced purchase offer. A turnaround consultant could have streamlined this process considerably.

In some cases, the borrower pays the cost of a turnaround consultant; however, given the delta between the liquidation value of a company and its market value as a going concern, banks should consider advancing the consultant's fees as a protective measure and to minimize further losses.

Forbearances and Modifications

Forbearances and modifications are important tools to consider for any workout strategy. However, forbearance agreements often are used in place of a well-developed plan for the resolution or rehabilitation of a credit. The purpose of a forbearance agreement should be to provide both parties with time to achieve a realistic result—whether it's a payoff, substantial paydown, equity investment, refinance, or sale of the loan.

But entering into multiple forbearances without a clear plan can negatively impact your overall recovery by creating borrower defenses or simply wasting time while the collateral value (and market interest) deteriorates.

If a borrower presents a reasonably viable resolution plan to you (or the bank develops a strategy), then a forbearance agreement can be effective in maintaining that credit in the short term. However, without an identified end goal, a forbearance agreement becomes a distracting and costly waste of time for the bank and borrower.

Third-Party Asset Management

Perhaps the most overlooked cost is the cost of human capital. Many banks rely on their lenders to work out or manage troubled credits. But, using lenders for workouts weakens the bank's relative bargaining position because a borrower can utilize the existing relationship against the lender during negotiations. It also requires that lenders focus on the recovery of "bad dollars" rather than find new, healthy relationships and loans.

An interesting—perhaps ideal—option is to hire an outside company to manage troubled portfolios. These companies specialize in three key areas: portfolio review and strategy, market value analysis, and net recovery.

The best companies deliver national experience along with a local sensitivity to your reputation and community politics. Some of these companies already manage a significant number of assets in Wisconsin.

By outsourcing the management of your distressed portfolio, your bank frees up lenders and resources while leaving the negotiations and management to a specialist that maximizes your recovery. If your bank employs workout specialists, they can focus on the most sensitive credits while the management company focuses on the remainder of the portfolio. Pricing for asset management varies, but ranges from a fixed percentage to a factor of net recovery.

What's Your Plan?

The 2008 financial crisis illustrated the danger of developing a reactive plan on an asset-by-asset basis following a declaration of default. The details of a successful asset management plan vary for each bank and depend on the loans, collateral, customer relationships, and capital position. Our portfolio advisory group can assist you with developing an asset management plan by drawing on our experience and by leveraging our relationships with national leaders in asset management and rehabilitation.

Jason E. Kuwayama is a member of Godfrey & Kahn's Banking and Financial Institutions team. He leads the Portfolio Advisory Practice Group and can be reached at jkuwayama@gklaw.com or 414-287-9278.

BOLT Community Bankers of Wisconsin — Building Our Leaders of Tomorrow

CBW's BOLT program (Building Our Leaders of Tomorrow) aims to provide an environment where energized and motivated members have an opportunity for peer networking, educational growth, and leadership development. Visit the CBW website, www.communitybankers.org, to learn more. And mark your calendar to attend the BOLT Summer Summit, set for June 16 and 17 at the Kalahari Resort in Wisconsin Dells.

BOLT Board

2014 Executive Committee

Chairman
Dan Ravenscroft
Royal Bank, Mauston
Phone 608-847-4500
DRavenscroft@royalbank-usa.com

Chairman Elect
Scott Ducke
Park Bank, Madison
Phone 608-278-2821
sducke@parkbank.com

Vice Chairman
Julie Redfern
Union Bank & Trust Co., Evansville
Phone 608-882-5200
jredfern@ub-t.com

President/CEO
Daryll Lund
CBW, Madison
Phone 608- 833-2381
daryll@communitybankers.org

CBW Staff Liaison
Shannon Schlueter
CBW, Madison
Phone 608-833-2385
shannon@communitybankers.org

Associate Member
Jeffrey Niesen
Bankers' Bank, Madison
Phone 608-829-5566
jniesen@bankersbankusa.com

Peter Wilder
Godfrey & Kahn, Milwaukee
Phone 414-287-9609
pwilder@gklaw.com

BOLT Board Members
Back row left to right: Peter Wilder, Jim Lamack, Travis Holt, Dan Kittleson, Leif Christianson, Craig Philipp, Melissa Wait, Eric Cerbins and Jon Reetz. *Front row left to right:* Jeff Niesen, Dan Ravenscroft, Scott Ducke. *Board Members Absent:* Julie Redfern, Mike Gargaro, Kevin Piette and Derrick Hermann.

Regional Directors

Northwest District
Travis Holt
Citizens State Bank of Loyal
Phone 715-225-8526 X315
tholt@csbloyal.com

Melissa Wait
United Bank, Eau Claire
Phone 715-835-6865 X2518
mwait@unitedbankwi.com

Northeast District
Craig Philipp
River Cities Bank, Baraboo
Phone 608-448-2623
craigp@rivercitiesbank.com

Leif Christianson
Peoples State Bank, Wausau
Phone 715-847-4072
Leif.christianson@bankpeoples.com

Jim Lamack
Union State Bank, Kewaunee
Phone 920-388-3466
jlamack@unionstatebank.org

Southwest District
Mike Gargaro
Coulee Bank, La Crosse
Phone 608-784-9550
mgargaro@couleebank.net

Kevin Piette
State Bank of Cross Plains, Waunakee
Phone 608-849-2710
kevin.piette@crossplainsbank.com

Dan Kittleson
Oak Bank, Fitchburg
Phone 608-250-5531
dkittleson@oakbankonline.com

Southeast District
Derrick Hermann
Waldo State Bank
Phone 920-528-8385
dhermann@waldostatebank.com

Jon Reetz
Great Midwest Bank, S.S.B., Brookfield
Phone 262-641-1319
jon.reetz@greatmidwestbank.com

Eric Cerbins
First National Bank of Berlin
Phone 920-361-2400
ecerbins@firstnationalbanks.biz

CBW/WBA Capitol Day Underscores Importance of State Banking Industry

Governor Scott Walker offered keynote comments at the sixth annual CBW/WBA Capitol Day, held in March at Monona Terrace, Madison. About 175 bankers also heard from Assembly Democratic Leader Peter Barca (D-Kenosha), and Department of Financial Institutions Secretary Peter Bildsten.

Following a lunch filled with useful networking, the bankers met with lawmakers at the Capitol to discuss banking related legislation during pre-scheduled legislator visits. Thank you to all the bankers who attended the CBW/WBA Capitol Day event and helped carry the message about the importance of the Wisconsin banking industry to our state's economy.

Planning Now Can Limit Future Data Breach Losses

Eric Lillard, PULSE Vice President,
Fraud and Risk Management

Financial institution executives and their cardholders, as well as merchants and other financial services organizations, are understandably on edge these days. Recent high-profile point-of-sale security breaches have revealed a pressing need to reevaluate card security. While the investigations into precisely what happened will likely help to sharpen defenses in the future, PULSE is encouraging issuers to seize this opportunity to plan for the next cyber attack.

Every organization involved in debit and credit card transactions is facing fraudsters who have proved to be intelligent, coordinated, strategic and stealthy. The nonprofit Privacy Rights Clearinghouse calculates that over the past nine years businesses including financial institutions and retail outlets have reported 1,571 breaches involving 470 million customer financial records.

These attacks are not opportunistic in nature. They are the result of deliberate efforts and long-term planning. Evidence suggests the holiday breaches were likely launched much earlier in the year, with hackers compromising systems, exploring what they could without being detected, and then waiting patiently for an opportune moment to exploit their plan.

Over the next 18 to 24 months, the risk of data breaches will continue to challenge the industry. Financial institutions can expect increased scrutiny of everything from the standards and practices of technology service providers and their core processors to the type of payment cards issued. Third-party risks were already in the crosshairs of regulators prior to the breaches, with the Office of the Comptroller of the Currency issuing updated guidance for banks to shore up defenses by improving their vendor management programs. Likewise, the push toward the EMV standard has been boosted immeasurably by the breaches.

A Fraud Incident Response Plan can provide structure and rational thinking during a breach.

Time for Planning

A Fraud Incident Response Plan is an essential tool that can provide structure and rational thinking during the stress and anxiety that accompanies these types of events. Any financial institution that doesn't already have a formalized Fraud Incident Response Plan should consider developing one as part of its risk management process.

During the chaotic and emotional response to the holiday breaches, it was easy to distinguish between the financial institutions that had a plan in place and had rehearsed these situations from those that did not. A plan takes into account the very stressful conditions that accompany a fraud incident. It also provides the financial institution with a framework for making critical business decisions based on data and previously identified risk tolerance levels.

Financial institutions that planned ahead were in a far better position to address the challenges they faced when a large number of their customers' cards are at risk. Essential elements of a Fraud Incident Response Plan include:

- Profiles of your transaction-level activity to aid in the rule strategy development process
- Contact information for all process participants including internal and external departments, vendors, decision makers, approvers, etc.
- Clear understanding of your organization's rule strategy approval process (time is money)
- An accurate inventory of all fraud strategies currently in place within your financial institution
- An assessment of known gaps or risks in your fraud mitigation program to help reduce surprises during the heat of the battle

Where possible, identify potential solutions to those gaps you identify. This may include the use of third-party organizations that can provide technical and human resource consultants.

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Recognizing that fraud never sleeps, remember to document the hours of operation that your fraud service provider (internal or external) is available. Weekends and holidays are a favorite window of opportunity for fraudsters.

The Human Element

Cardholder behavior also can help limit exposure to data breaches. PULSE recommends establishing an effective communications program to keep cardholders informed about emerging threats. Use this opportunity to reinforce many of the basics, such as your policy regarding disclosure of account information and Personal Identification Number (PIN). Phishing attacks often accompany breaches, so this can be another topic to consider in terms of cardholder education.

Financial institutions should be diligent in their efforts in communicating with their customers about fraud. Breaches appear to be a topic that we will continue to fight at an industry level, and educating your cardholders is a valuable component in reducing anxiety.

Finally, financial institutions need to assess their fraud mitigation tools, systems, and resources. PULSE offers DebitProtect®, a sophisticated fraud mitigation service that analyzes debit card transactions, detects fraudulent behavior, and can optionally block suspected fraudulent activity at the point of sale before a transaction is approved. During the authorization process, DebitProtect evaluates transactions in milliseconds for registered participants.

Fraud attacks are escalating and becoming increasingly more sophisticated. Financial institutions are encouraged to seize this opportunity to plan and prepare your organization for practice.

PULSE is a Discover Financial Services company and one of the nation's leading debit/ATM networks, linking cardholders with more than 415,000 U.S. ATMs, as well as point-of-sale terminals at retail locations nationwide.

Pink Ribbon Debit Card Program Aids Cancer Recovery

MADISON—Wisconsin Bank & Trust (WB&T) has presented funds generated through its Pink Ribbon Debit Card program to Breast Cancer Recovery Foundation, Inc., a Madison nonprofit. In 2013, WB&T's customers swiped their Pink Ribbon Debit Cards 388,062 times for a total contribution of $9,701.55.

Every time a customer uses a Pink Ribbon Debit Card to make a purchase, the bank contributes 2.5 cents to the Breast Cancer Recovery Foundation. Pink Ribbon Debit Cards are free and available with all WB&T personal checking accounts. There is no cost to customers.

"Every swipe of a debit card helps meet real needs in our community," said Lu Ann Bowman, WB&T senior vice president and retail sales manager.

Starion Financial Donates Almost $1 Million

BISMARCK, N.D.—In 2013, Starion Financial donated more than $960,000 to charities and local organizations in the North Dakota and Wisconsin communities it serves. As part of this amount, the bank pledged $100,000 to the Middleton Outreach Ministry.

"We are proud to support so many organizations that share our mission to build a better community," said Craig Larson, CEO/president.

FBFC Committed to Giving Back

Donna Balistreri, compliance coordinator in FBFC's Quality Assurance department, assists a student at a Junior Achievement event.

First Bank Financial Centre (FBFC) gives back to the communities it serves through both volunteer time and financial support. The bank provides employees the time and resources to put their talents to use for the betterment of FBFC communities, said Renee Solveson, corporate marketing representative. An impressive 100 percent of the management team and 81 percent of employees volunteer with more than 300 organizations.

FBFC also maintains a Charitable Giving program to support non-profit organizations that improve the overall quality of life throughout the bank's service areas. Over the last 10 years, FBFC has given more than $1.5 million to local non-profit and civic groups. In 2013 alone, the bank donated nearly $250,000 to local organizations. FBFC also sponsors events that enhance the vitality of its neighborhoods, celebrate its communities' successes, and address local needs.

"Investment requests are granted based on the non-profit organization's ability to meet FBFC's charitable giving criteria, as well as availability of charitable funds," Solveson said. "There are countless deserving charitable organizations in all of our communities, and our Charitable Giving program makes every effort to assist as many qualifying non-profit organizations as possible."

FBFC receives hundreds of requests for donations every year. It considers requests for charitable donations from non-profit organizations that qualify in three charitable giving categories:

Education and Job Training

- Financial management training and education programs
- After-school tutoring and mentoring programs for underserved youth and young adults
- Scholarship programs to educational organizations that support students who require financial assistance
- Job training and vocational programs, including literacy and basic-skills education, for low to moderate-income adults

Health and Human Care

- Community health and mental health counseling services
- Homeless and crisis shelters and services
- Aid to associations and societies that advance cures and promote health

Civic and Cultural

- Programs that promote civic engagement
- Aid to organizations that promote local arts and cultural activities

"As a community bank, we have a vested interest in ensuring that financial literacy is a priority throughout our footprint," Solveson said. FBFC employees participate in many financial education programs with local students, including Teach Children to Save Day, Junior Achievement, and Money Smart Week. "In 2013, we received special recognition from Junior Achievement for the number of FBFC employee volunteers," she added. "In addition, we host retirement and investment workshops at our branches and local community centers to help residents plan appropriately for their financial futures."

Charitable organizations eligible for FBFC donations must be exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code. High priority is placed on donations that benefit low to moderate-income individuals and communities. Most contributions are less than $10,000, however, exceptions can be made for certain situations.

"At First Bank Financial Centre, we are One Bank | One Community," Solveson said. "We are happy to demonstrate this commitment throughout the communities we serve."

Ever Popular CBW Member Appreciation Days Set

Summer in Wisconsin, finally! Once again it's time to mark your calendar for one of these 2014 CBW Member Appreciation Days:

Tuesday, June 24, Irish Course at Whistling Straits, Kohler

Wednesday, July 9, University Ridge Golf Course, Madison

Monday, July 14, Eau Claire Golf & Country Club, Altoona

The day includes a variety of speakers in the morning, a light lunch, and afternoon golf. Watch your mail for registration materials.

2014 CBW Management Conference & Expo

Attention Vendors: Numerous sponsorship opportunities are available to you at the CBW Management Conference & Expo, but they are available only on a first-come, first-served basis. If you have any questions or are interested in a sponsorship, contact Shannon Schlueter, 608-833-2385, or by e-mail at Shannon@communitybankers.org.

Levels of Sponsorship
Platinum Level — $3,500 & above
Gold Level — $2,500 & above
Silver Level — $1,500 & above
Bronze Level — $1,000 & above
Sapphire Level — $500 & above

The 2014 CBW Management Conference & Expo will take place, Monday through Tuesday, Sept. 8–9, at the Wilderness Resorts, Wisconsin Dells.

Hudson Bank Merger Finalized

HUDSON—In February, Great Northern Bank, headquartered in St. Michael, Minn., completed a merger with First American Bank in Hudson under the First American Bank name.

At the end of 2013, Great Northern had $71.2 million in assets while First American had $93.4 million in assets.

North Shore Unveils Digital Wallet

BROOKFIELD—North Shore Bank is the first Wisconsin bank to launch a digital wallet tool. The bank's MasterPass provides a centralized spot to securely store debit card, credit card, prepaid card, and shipping information to make checkout faster for online customers.

Administered by MasterCard, the bank's digital wallet can hold information from MasterCard, American Express, Visa, Discover, and Diner's Club cards. Customers seeking another layer of security have the option to integrate mobile/SMS verification.

Net Income Up at State Banks

Wisconsin's 260 state banks reported a combined net income of $1.02 billion during fourth quarter of 2013 up from $828 million during the fourth quarter of 2012.

Total assets were $99.2 billion up from $98.6 billion during the fourth quarter of 2012. Total deposits were $79.3 billion, up from $78.9 billion a year earlier.

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For more details, visit the CBW website, www.communitybankers.org to see the latest Banconomics Report.

Town Bank Expands

HARTLAND—Town Bank will purchase 11 Wisconsin branches of Talmer Bank and Trust, headquartered in Troy, Mich. Town Bank will assume all of Talmer's deposits in Wisconsin, which totaled about $360 million on March 31. Talmer will not sell any loans to Town Bank in the transaction.

Talmer purchased the offices of the former First Banking Center in Burlington from the FDIC in 2010.

Town Bank, a subsidiary of WinnTrust Financial Corp. of Rosemont, Ill., also plans to acquire the Pewaukee branch of THE National Bank, adding $40 million in deposits and about $90 million in performing loans.

Home Savings Gets Approval to Sell Stock

MADISON—Regulators have approved Home Savings Bank's plans to sell stock.

Founded in 1895, the bank, with its $115.2 million in assets, intends to transform itself from a mutual savings bank to a stock-based savings bank. The new holding company, Home Bancorp, plans to sell up to 1,163,800 shares at $10 a share. An additional 270,922 shares will be available, also at $10 each, to employees participating in the bank's 401(k) retirement plan.

Those with at least $50 of deposits in Home Savings will be the first to buy stock and will have a month to finalize the deal. Employees and other customers will be next followed by Dane County residents. The stock sale will be open to the public after that.

The bank expects to raise between $6.2 million to $10.4 million depending upon the number of shares sold.

Waterstone Reports Increased Income

WAUWATOSA—Waterstone Financial, Inc. (NASDAQ: WSBF), holding company for WaterStone Bank, reported a 3 percent increase in pre-tax income for the year ended December 31, 2013 compared to 2012. Pre-tax and net income totaled $23.3 million and $14.7 million, respectively, for the year ended December 31, 2013 compared to $22.7 million and $34.9 million, respectively, for the year ended December 31, 2012.

Doug Gordon, president and CEO, stated, "Financial performance for 2013 reflects continued asset quality improvement for the community banking segment partially offset by reduced profitability for the mortgage banking segment. In addition, Waterstone Financial, Inc. completed its second-step conversion in January of 2014 which resulted in our becoming a stock holding company with a gross capital raise of $253 million. Strong participation in the capital raise by WaterStone Bank depositors is gratifying."

Waterstone Financial, Inc. is a single-bank, thrift holding company with $1.9 billion in assets. It has nine community bank branches in the metropolitan Milwaukee market, a loan production office in Minneapolis, and mortgage banking offices in 22 states around the country.

Anchor Construction Projects

MADISON, WEST ALLIS—AnchorBank will refurbish its nine-story downtown Madison AnchorBank building at West Main and South Carroll streets starting in July. The project will include the construction of a multi-level parking structure behind the bank; expanding the existing building with more office space, storefronts, and a restaurant, and wrapping the entire building with an energy-efficient curtain wall to allow in natural light. When completed, the building will almost double the total rentable office space from 109,715 square feet to 190,000 square feet.

In West Allis, AnchorBank will open a branch at 7401 West Greenfield Ave. in August. The existing branch was demolished in February and the bank's lobby was relocated to a temporary building directly behind the old building. The improved structure will feature several drive-up lanes, plus a drive-up ATM and night depository.

Banks Plan Merger

WAUKESHA, MILWAUKEE—First Federal Bank of Wisconsin, headquartered in Waukesha, and Bay View Federal Savings and Loan, headquartered in Milwaukee, plan to merge. Pending regulatory approval, the banks expect to complete the merger in midyear. The merged institution will operate under the First Federal Bank of Wisconsin name and be headquartered in Waukesha.

At year-end 2013, First Federal had assets of almost $120 million and three branches in Waukesha. It is in the process of opening a new branch in Brookfield.

Bay View had assets of $134.5 million at year-end. Its home office at 3974 S. Howell Ave. will become a branch of First Federal upon completion of the merger.

Promotions at McFarland

MCFARLAND—McFarland State Bank has promoted two staff members. Mark Schubring was promoted to senior vice president and chief credit officer. Christina Smith-Wilkie was promoted to assistant vice president-commercial banking.

AnchorBank Promotes Thomas

MADISON—Eric Thomas has been named senior vice president and market manager for AnchorBank's Milwaukee Commercial Banking division. Thomas has almost 35 years of commercial banking experience, most recently as managing director for the Wisconsin region for Fifth Third Bank.

Six Earn Promotions at Tri City

OAK CREEK—Tri City National Bank promoted Brian Graham, Ivan Gamboa, and Dave Pike to senior vice president, Brian Morrison and Jo Anne Meyer to vice president, and Marie Sandlin to assistant vice president.

Baylake Promotes Alberts

STURGEON BAY—Jamie Alberts, vice president-commercial banking manager, was promoted to market president at Baylake Bank's Green Bay area region.

In his new position, Alberts will lead the commercial banking, cash management, and private banking teams, as well as work with strategic partners within the bank's wealth services and retail banking areas. Alberts has been with Baylake Bank for 18 years.

Hosack New CFO at Waterstone

WAUWATOSA—Waterstone Financial, the parent company of WaterStone Bank, welcomes Allan Hosack as its new chief financial officer. Hosack replaces longtime CFO Richard Larson who resigned from the holding company following its transition from a mutual to a stock company.

Previously at M&I/BMO Harris, Hosack served as CFO of its wealth management and global asset management divisions. He holds a degree in finance and investment banking from the University of Wisconsin-Madison and a juris doctorate from the Chicago-Kent School of Law.

Promotions at Securant

MENOMONEE FALLS—Securant Bank & Trust recently promoted several staff. Dale Tietz was promoted to senior vice president-commercial banking. Mickie Steldt and Spence Mather are the bank's new vice presidents-commercial banking while Richard Ziebell is vice president-mortgage banking.

Shea, Dott Join First Business Bank

MADISON—Mike Shea has joined First Business Bank as its vice president of wealth management. In addition to helping private wealth management clients with their needs, Shea will also work with First Business Trust & Investments on clients' long-term financial plans.

First Business also announced that Tom Dott has joined the bank as vice president-commercial banking.

Home Savings Welcomes Gainer

MADISON—Dana Gainer has joined Home Savings Bank as vice president of retail banking.

FBFC Promotes Three

OCONOMOWOC—First Bank Financial Centre (FBFC) has promoted Derek Schoenborn to assistant vice president-commercial lender and Tom Stapleton to vice president-commercial lender. It also promoted Nick Collins to vice president.

Port Washington Bank Names SVPs

PORT WASHINGTON—James Schowalter was named senior vice president-chief credit officer and Melanie Spencer was named senior vice president of compliance and human resources at Port Washington State Bank.

Egan Earns Promotion

BROOKFIELD—Colleen Egan was named vice president at North Shore Bank. Egan has worked for the bank for more than 27 years, most recently serving as assistant vice president. For the past seven years, she has guided the development and implementation of the bank's Prime Promotion call center and customer care area. The customer care area provides support for 24/7 banking needs and addresses inquiries for deposit accounts and lending services.

Mack to Head New Division

MADISON—Wisconsin Bank & Trust has formed a Private Banking division and appointed Jill Mack to head up the new entity. Mack has 25 years of banking industry experience including 12 years in private banking.

The new division will serve clients with investable assets of $500,000 or more.

Ropella Announces Retirement

MADISON—First Business Financial Services' senior vice president and CFO James Ropella has announced his intention to retire later this year. Ropella joined First Business, the holding company of First Business Bank, in 2000 as CFO and led the company during the process of going public in 2005. He also helped orchestrate a stock offering in December 2012 that raised more than $29 million.

During Ropella's 14 years with the holding company, growth skyrocketed from $300 million to $1.3 billion.

New Trust Administrators

WAUKESHA— Prairie Financial Group, a division of Waukesha State Bank, has hired Nancy Schoenberg and Stephen J. Zimmel as new senior trust administrators. Schoenberg will serve as relationship manager and fiduciary advisor, providing trust administration and estate settlement services for a wide range of clients and accounts. Zimmel will be responsible for working with clients to develop financial strategies, as well as daily trust administration.

Congratulations, Jacob Scheider

OCONOMOWOC—First Bank Financial Centre has promoted Jacob Scheider to assistant vice president.

Badger Bank Recognizes Employees

Pictured from left: (Back Row) Cindy Wade, Mitch Weyer, Steve Dehnert, Lisa Kleinsteiber, and Donna Rahn

FORT ATKINSON—Badger Bank recently recognized a combined total of 65 years of service by congratulating five deserving employees, including its president and CEO.

"Badger Bank remains fortunate to have such a dedicated and competent workforce. Employee loyalty is an important part of our vitality and 130-year history as a strong and growing, independent community bank. It's our employees that help to differentiate Badger Bank from our competitors. Badger Bank is honored to recognize such exemplary and professional employees," said President and CEO Steve Dehnert. Employees recognized Dehnert for 35 years of outstanding dedication, and ongoing service.

Marcy Gudgel Promoted

MADISON—First Business Trust & Investments has promoted Marcy Gudgel to assistant vice president. She is responsible for database management associated with daily trust operations, as well as communications with key administrative service providers. She earned her B.S. from the University of Wisconsin-Madison.

Marcy Gudgel

Bell Receives Lifetime Achievement Award

UNION GROVE—CBW President and CEO Daryll Lund, right, presented Steve Bell, CBW former board member and 2010–11 chairman, with a Lifetime Service Award for his 38-year community banking career—including 32 years at Community State Bank, Union Grove, where he served as president since 2011.

Interest Rate Risk Solutions

Protecting Investment Portfolio and Book Capital Values

The quick back up in rates that occurred in the 2nd quarter caught many banks off guard and provided a painful reminder of what higher rates can do to investment portfolio values and book capital levels. This rate move also prompted the FDIC to re-emphasize the importance of interest rate risk oversight and management in Financial Institution Letter (FIL-46-2013) released October 8, 2013.

Over the last 5 years, sluggish loan growth, an influx of deposits and generational lows in interest rates have created conflicts among the three primary purposes of the investment portfolio: liquidity, interest rate risk management and earnings. Now, perhaps more than at any time in the recent past, it is important for banks to protect the investment portfolio against a repeat of the 2nd quarter rate moves. As is pointed out in the FDIC's letter, failure to protect investment portfolio values can lead to losses as well as liquidity and capital constraints.

Historically banks have protected the investment portfolio against rising rates by shortening durations - either buying shorter or selling longer duration bonds. While this technique works, it may not be the most efficient way of managing existing risk nor is it the only option. Many banks are utilizing alternative strategies to protect investment portfolio and book capital values.

The first alternative, a direct hedge of the investment portfolio, is one in which the bank uses an interest rate swap and designates specific investment securities in a hedge accounting relationship. The second, an indirect hedge, is one in which the bank uses an interest rate swap and designates assets (other than bonds) or liabilities in a hedge accounting relationship. The economic outcomes of both strategies are similar; however, the accounting outcomes may be significantly different.

The traditional process for developing balance sheet risk management strategies starts with the bank's current balance sheet and IRR profile. The models used to compute the IRR profile (EAR and EVE) employ numerous assumptions about pricing, new business volumes and other important variables. This makes these models useful tools for projecting earnings in various rate scenarios, but also makes their output susceptible to the assumptions used.

When using EVE, many of the "values" cannot be immediately realized or monetized. For example, the traditional fixed rate FHLB advance has a prepayment penalty in a falling rate environment but has no prepayment benefit in a rising rate environment. The typical EVE model assumes that these advances lose value as rates fall and gain value as rates rise. The shortcoming of this approach is that the rising rate values cannot be immediately realized or monetized.

We make the above points to illustrate why focusing on the investment portfolio and its sensitivity to changing market interest rates is so important in today's environment. While this is a non-traditional approach to IRR management, the investment portfolio is a sensible place to find IRR exposures that are not impacted by modeling assumptions, is a significant source of risk for many banks and is inherently manageable. Therefore, we believe it makes sense to find ways to "protect" its value.

A direct hedge of the investment portfolio may be preferred by banks that actively manage the investment portfolio. With the direct hedge, if rates rise and you sell the bond, you would simultaneously terminate the swap. The value of the bond and the value of the swap would both be recognized in current earnings.

With an indirect hedge, assuming the bank hedged a deposit account; the bank would simultaneously sell the bond and terminate the swap. The value of the bond would be recognized in current earnings while the value of the swap would be recognized in earnings over the remaining life of the hedge accounting relationship (assuming the associated risk exposure still existed).

For many banks, the investment portfolio may provide the only opportunity to achieve hedge accounting treatment. For those other banks that have plenty of assets or liabilities that do lend themselves to favorable hedge accounting treatment, an indirect hedge may be the preferred approach.

If you are concerned about rates moving higher and would like our help developing and executing a well crafted risk management strategy for your bank, please contact your Vining Sparks/ICBA Securities account representative.

Rick Redmond, Director-Balance Sheet Strategies

Community Bankers of Wisconsin
455 S. Junction Rd., Ste. 101
Madison, WI 53719
www.communitybankers.org