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# Raising the Bar

*By Amber Seitz*

## Disruption requires the banking industry to meet higher customer expectations

*"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction."*

– Bill Gates

"Disruption" is one of the biggest buzzwords in banking today. Many within the industry associate it with various technological developments and the fintech companies selling them. True disruption, however, goes much deeper. Even more importantly: traditional banks are not doomed to watch helplessly as the industry they know disappears. In fact, by focusing on their customers' wants and needs—something Wisconsin's banks have always excelled at—community banks can continue to thrive in a disruptive world.

### DEFINING "DISRUPTION"

According to **JP Nicols**, managing director of FinTech Forge, disruption in banking occurs on three layers. The first is the experiential layer, which includes everything that directly impacts consumers, such as mobile banking and P2P payments. Second is the tactical layer, which is the digital connective tissue between customer experience and the bank's core operations. Disruption in this layer includes technologies like open API and process reengineering. Finally, the strategic layer of disruption is home to developments such as artificial intelligence and blockchain. "Most of the disruption we have experienced so far has been in the experience layer," Nicols said, but noted that the other layers will have more impact in the future.

Despite its pervasiveness, disruption can be difficult to define. "It doesn't mean something new is launched and all the current players disappear," Nicols explained. "In this day and age, no industry is invulnerable to disruption," he continued. "Our customers' expectations are being reshaped by technology." Ultimately, disruption can be defined as change driven by customer expectations.

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Don't miss DeFazio and Nicols' presentations at the WBA Bank Executives Conference, Feb. 5-7 in Madison. Register at *www.wisbank.com/BEC.*

# Don't Roll the Dice and Let Chance Decide the Future of Your Bank

## Leadership development is a critical component of succession planning

*By Amber Seitz*

The banking industry's future is difficult to predict. Fintech, compliance, technology, branch strategy… The list of potential challenges and opportunities seems endless. Who will lead your bank through this shifting landscape of tomorrow?

Succession planning must be more than a list of names. It requires detailed planning and follow-through. "Our belief is that the purpose of long-term succession planning is to create an ideal plan for the future that takes into account all the things that are important to the bank, such as culture, philosophy, and goals," said Executive Benefits Network (EBN) Managing Partner and Founder **R. David Fritz, Jr.** "The ultimate goal is to have a smooth and strong transition." Integrated talent management and leadership development plans are essential for senior management to position key successors for success in their future roles—and to ensure they stay with the bank long enough to fill those shoes.

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*Message from the Chair*

# WBA Chairman's Forecast for 2018

*By David P. Werner*

**Message from the Chair**

David P. Werner

I would like to begin my first column by thanking **Fred Siemers** for his dedication and service to the industry over the years on the WBA Board of Directors, most recently as Chair, and previously on the CBW Board of Directors. Unfortunately, due to recent circumstances and the WBA Bylaws, Fred is no longer eligible to serve on the WBA Board. Therefore, at its December 6 meeting, the WBA Board unanimously affirmed my appointment as Chair and my continued appointment as Chair-Elect for the remainder of the WBA's 2017-18 fiscal year. As your new Board Chair, I intend to continue Fred's leadership agenda of championing the relevance and importance of a strong banking industry in Wisconsin. I am truly humbled to begin my service as WBA Board Chair earlier than expected, and I welcome your support as we begin this unique journey together.

Doesn't it seem like 2017 began just a few months ago? It's difficult to believe an entire year has gone by, and how much has changed. We have a new president in the White House, shifting economic and political landscapes to contend with, and new technology to evaluate. As we enter a new year, Wisconsin's banking industry leaders should consider the potential impact several key economic and political circumstances may have on our banks, our customers, and our communities.

### Tax Reform

At the time of this writing, the U.S. House of Representatives and U.S. Senate have each passed their respective versions of a new tax plan that would make significant changes to the current tax code. While there are some key differences between the two, both plans call for deep cuts for businesses and reshaping how multinational corporations are taxed. The only certain thing about tax reform is that (if signed) it *will* have an impact on Wisconsin's banks. WBA is keeping a close eye on these developments, and you can read about how each federal tax reform proposal will affect Wisconsin's banks at *www.wisbank.com/TaxReform*.

### Regulatory Relief

Ever since the financial crisis and subsequent flood of new and more rigorous regulations—many of which are particularly onerous for community financial institutions—regulatory relief has been high on many Wisconsin bankers' wish lists. We are finally seeing some progress in this area, and I expect more in 2018. One positive sign is a bi-partisan regulatory reform deal reached in the U.S. Senate

*(continued on p. 27)*

# We've Been Waiting Seven Years for This Opportunity

*By Jon Turke*

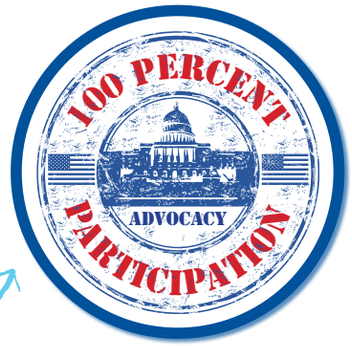
**Advocacy Update**

Jon Turke

**WBA Capitol Day**

January 16 ★ Madison

Let your voice be heard at the *free* WBA Capitol Day event in Madison. Visit *www.wisbank.com/CapitolDay* to register.




Bankers have been waiting a long seven years for regulatory and tax relief in the wake of Dodd-Frank's passage in the summer of 2010. In June 2010, Wisconsin had 272 headquartered banks with almost 30,000 employees. As of June 2017, there were 215 institutions with 21,000 employees. While federal regulations are not the entire reason for the decline in numbers, they are a huge part of it. Since enactment of the law, bankers have been telling Congress how much these provisions not only hurt the industry but consumers in their districts.

Political change takes time. The framers of our Constitution designed the system so it would be difficult to pass legislation in the first place. As you recall in 2010, Democrats had 58 seats in the U.S. Senate and were able to convince two Republicans from "blue states" to join in the final passage of the bill. Over the course of the last seven years, bankers from across the country have supported candidates on both sides of the aisle who are convinced changes must be made. The result of that continuous, dedicated support is in the latest deal in the U.S. Senate that already has nine Democrats supporting regulatory relief.

Your involvement in WBA's advocacy efforts is essential to passing legislation that is good for the industry. Whether it's traveling to Washington, D.C., attending Capitol Day in Madison, hosting Take Your Legislator to Work events, and/or donating to the Wisbankpac/ABW Conduit, all components of advocacy are crucial to creating the environment necessary for positive changes for the industry. Please don't hesitate to contact me at *jturke@wisbank.com* or 608/441-1215 if you have questions about how you can make an impact!

As both tax reform and regulatory relief bills work their way through the legislative process, we are going to need increased involvement from the membership in contacting our senators and your member of Congress to let them know how important these bills are for the industry and your customers—their constituents. Watch for emails and other communication from WBA for more information in the coming weeks.

*Turke is WBA director – government relations.*

# UCC Financing Statements Require Exact Debtor Names

## *Use the exact debtor name when filing UCC 1 in order to maintain bank's perfection*

**Compliance Q&A**

Scott Birrenkott

Visit *www.wisbank.com* to learn more about filing UCC 1 financing statements and other compliance issues.

**Must a UCC financing statement use the exact name of the debtor?**

**Answer:** Yes. The Wisconsin Department of Financial Institutions (DFI) uses an exact match computer search logic for Uniform Commercial Code (UCC) 1 financing statements. If an exact name is not used, a search of DFI's database for the debtor's name may not result in finding the debtor's name, deeming the bank's UCC financing statement to be seriously misleading.

Under Wisconsin's UCC rules, a financing statement deemed seriously misleading is ineffective. Thus, for a UCC financing statement to be effective, it must provide the exact name of the debtor. Where the debtor is an organization, this means the UCC financing statement should provide the name that appears on the registered organization's public record, filed with DFI. For an individual debtor, the UCC financing statement should provide the name of the individual as it appears on their operator's license (driver's license) or identification card. If the name does not match, it could fail to appear using DFI's search logic, and leave bank unperfected on its security interest.

Wisconsin's UCC does not require banks to keep a copy of the driver's license. Banks may do so, however, if seeking to retain evidence that the filing was made as the name appears on the license. Note that in this case, WBA recommends keeping it in a different file than the loan file to avoid creating any potential fair lending issues.

Be aware that a financial institution has four months after a debtor's name change before a financing statement becomes "seriously misleading." For this reason, WBA recommends establishing a system to check whether a debtor's name has changed every few months.

Because the sufficiency of a debtor's name hinges upon DFI's search logic, one of the easiest ways to ensure the name is sufficient is to check for the filing on DFI's site yourself.

As always, if you have any questions on UCC matters or other compliance-related concerns, call the WBA legal hotline at 608/441-1200 or contact us via email.

*Birrenkott is WBA assistant director – legal. For legal questions, please email wbalegal@wisbank.com.*

*Note: The above information is not intended to provide legal advice; rather, it is intended to provide general information about banking issues. Consult your institution's attorney for specific legal advice or assistance.*

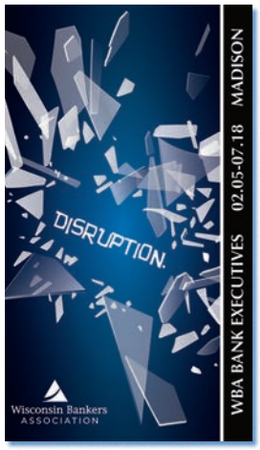
# Conference Preview: Bank Leaders Learn to Navigate New Roles

## *Take a sneak peek at the upcoming Bank Executives Conference*

The annual WBA Bank Executives Conference is the largest gathering of bank leaders in the state, bringing together roughly 300 bank CEOs and executives each year. This year, when these industry leaders gather in Madison, they'll hear a session geared toward helping them transform their banks and prepare for a disruptive future. The presentation, *The Future of Work Today: Insights From the New World of Work*, will be led by **Seth Mattison**, workforce strategist and management trend-spotter with FutureSight Labs.

Mattison provided WBA with a glimpse into what his presentation will cover, starting with the overwhelming amount of disruption the industry's leaders face today. "At no time in history have leaders been responsible for shepherding their organization through more disruptive forces," said Mattison. Technology, shifting consumer expectations, evolving generational and relationship dynamics, and volatile political, economic, and regulatory landscapes have coalesced to create an era of unprecedented change.

Despite these changes in the demands placed on leaders, the way most leaders approach their role has not altered much in response, and neither have the tools they use. The processes and policies implemented and company culture fostered at many organizations have not evolved along with the requirements for success and relevance. "The challenge for leaders today is to become aware of where traditional structures, systems, and ideologies serve them and where they are holding the organization back from embracing change and transformation," said Mattison. "Successfully navigating the challenge of thriving in what is two very different worlds is the mandate of the modern-day leader."




**DISRUPTION**

**Feb. 5-7 | Madison**

Reserve your spot at the WBA Bank Executives Conference today!
Visit *www.wisbank.com/BEC* to register.

One traditional tool that no longer works: using past success as a guide. Unfortunately, the past is no longer a guaranteed predictor of future results, Mattison explained. Because of that, today's industry leaders face a difficult dichotomy. "Organizations and leaders are being forced to execute and perform today while simultaneously maintaining the discipline to reinvent themselves for a very different future," said Mattison. It's not an easy task to lead an organization while being pulled in two directions! Ultimately, Mattison says leaders must embrace change in order to guide their bank successfully into the future: "Bottom-line: while there are many timeless leadership virtues we must embrace, there is a new portfolio of beliefs, habits, skills, and competencies needed to be a high-impact high-performance leader today."

It is clear businesses must adapt in order to thrive in today's new world—and that starts with their leaders. However, that is easier said than done. "As humans, we hate change," Mattison said. "It's scary. It's uncomfortable, and it's downright hard." During his presentation at the annual conference, Mattison will provide research-based insights into what changes are coming next along with two key ideas to inspire leaders to tackle those changes head-on. First, the internal shift in leaders is the most important change, and must come before any external adaptations—such as to processes, technologies, or physical structures—can be made. Second, change takes courage and as a leader, you've already demonstrated that you're courageous enough to face a massive amount of disruption on a daily basis. "I don't think we talk enough about the importance of courage today or the fact that the amount of change we're navigating requires individuals to be brave," said Mattison. During his presentation, he'll encourage attendees to "flex that courage muscle" so they can experience the satisfaction of learning and trying new things. "I want to equip people with a new framework to think about the changes they're navigating in their world, and I want to inspire them to be courageous enough to continue to evolve and ultimately find joy in their work," he said.

> ***"I want to equip people with a new framework to think about the changes they're navigating in their world, and I want to inspire them to be courageous enough to continue to evolve and ultimately find joy in their work."***
>
> – Seth Mattison
> workforce strategist management trendspotter, FutureSight Labs
> *"The Future of Work Today: Insights From the New World of Work"*


Mattison

In addition to intriguing data and helpful action items, conference attendees can also expect some entertainment during Mattison's presentation. He is a big believer in engagement and capturing an audience's attention. His session at the conference will not only illuminate the new demands and challenges for today's leaders, but do so through captivating stories, rich media, thought-provoking data points, and discussion prompts. Attendees will gain practical, actionable tools they can use to impact their organizations immediately, and, with any luck, have a little fun along the way.

Visit *www.wisbank.com/BEC* for more details about this and other exciting Bank Execs sessions or to register online!

## Succession Planning

*(continued from p. 1)*

### Common Challenges

Wisconsin banks—and the industry in general—face several challenges when it comes to successful succession planning. Foremost is the lack of young, incoming bankers. "The key challenge that banks face today is finding qualified, driven individuals that fit with the job and with the culture of the bank," said **Kevin Piette**, COO at State Bank of Cross Plains and chair-elect of the 2017-2018 WBA BOLT Section Board. "You're looking for a long-term fit so you can grow that talent." According to Chief Operating Officer and Market President at Coulee Bank, La Crosse **Mike Gargaro**, current BOLT Chair, part of the solution to this problem is to do a better job of telling the story of community banking. "We need to get the stories of what community banking is about and what the jobs are like to our potential hires," he said. "We need to be seen in the communities we serve." This is especially important in rural parts of the state, where the pool of potential employees is much smaller. "It's a challenge for community banks, especially in rural areas, to attract talent, but by continually advocating we can show how great our industry is," said Piette.

Another challenge is the population differential in today's workforce. "There's a leadership gap, where you have Baby Boomers leaving the workforce and Millennials entering it," explained **AmyK Hutchens**, founder of AmyK International, Inc. "Millennials are the fastest-promoted generation post-Industrial Revolution." Not only are Millennials filling large shoes because there simply are not enough Gen X bankers to do so, but senior management often are unsure of how to manage these different generations in a way that encourages growth and retention.

Finally, effective succession and development planning must take place in tandem with exit strategy planning. "If the current CEO is not simultaneously preparing for his or her exit, then all the great planning and development you've done will get pushed down the line," said Fritz. "The board needs to keep the CEO honest with the timeline that is agreed-upon."

# Don't Roll the Dice and Let Chance Decide the Future of Your Bank

*Leadership development is a critical component of succession planning*

### Identifying Candidates

The first step in integrating a development plan into the succession plan is to determine which key roles are likely to experience turnover in the near future (typically 3-5 years). Next, senior management must identify the individuals within the bank who may be tapped for a leadership role in the future. Note: this is different from having a "backup plan" in case of an emergency departure, though that is a useful exercise. "Know what would happen if one of your key people left suddenly," Fritz advised. "That's your immediate short-term succession plan. We call it the 'lifeboat drill,' and it's different than the long-term plan." A successful long-term plan requires identifying and developing key individuals.

The most fundamental quality to look for in future leaders is drive. "If you ask someone if they're interested in leadership and they say 'yes,' you have to support their growth and possible advancement," said Hutchens. "Give everyone who raises their hand to lead an opportunity to do so." According to Piette, that "can-do attitude" is more important than trainable skills. "Most of the functional attributes you can train for, but it's the proactivity and ability to communicate effectively that is the foundation of leadership," he said. In some cases, proactive employees are also seen as risk-takers, says Gargaro. "Watch for someone who's willing to step outside their norm and look at problems differently to try to come up with results that work in favor of the bank and the bank's customers," he advised.

An effective development plan also differentiates between necessary personality traits and trainable skills. "Good leadership is both innate and learned," said Piette. "You need to have an inquisitive and positive personality which provides the foundation for the desire to learn and develop your leadership." Some individuals will have a natural ability to lead, but that doesn't mean employees who don't exhibit that trait should not be considered for development. "There is a little bit of truth to the 'born leader' idea," said Gargaro. "On the other hand, attending leadership training can bring out abilities within yourself that hadn't been exposed previously."

Finally, the development plan should identify the bank's appetite for hiring outsiders versus promoting from within. Statistically, home-grown talent leads to better results. "One thing we find is that companies that promote from within often outperform those that recruit outsiders," said Fritz. "The more you can bring people in and develop them, the better the outcome is." In addition, a strategy centered around growing from within is more feasible for smaller and/or rural institutions. "Smaller community banks don't always have the same opportunities," said Gargaro. "When you can promote from within, strive to do that. They're already in your culture and understand what your bank is about."

However, banks should not adhere to a "grow from within" strategy if the talent just isn't there. Sometimes recruiting outside talent is the best path forward. "I'm a firm believer that you look for the right person for a particular job," said Piette. "Hiring from the outside can be an important opportunity for community banks because you bring in the experience and talent necessary to run your bank in the 21st century. You're growing the people you have internally while infusing the bank with new talent to make the entire organization better."

### Development Plan Essentials

Every bank succession plan should incorporate a leadership development strategy, and that strategy should meet three essential criteria: strategic alignment, formalization, and retention. Of the three, the most critical is alignment with the bank's overall strategic plan. "A well-designed strategic plan identifies where you want to go and what talent

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## Succession Plan

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and skills you'll need to get there," Hutchens explained. "The key is alignment." That said, no strategy should be set in stone. Allow for adjustments as circumstances change. "Adjust the plan when you have staff turnover," Gargaro advised. "You may hire someone who turns out to be a real high-performer, or maybe someone wants a career path change."

The second essential criteria for an effective leadership development plan is that it be formalized—that is, written down. "If you don't have an organized development program, it becomes something you make a mental note of in the middle of the night," said Fritz. "If you have it in writing and need to give monthly or quarterly reports to the board about it, you're more likely to be actually following those plans." The exact steps in each plan should be customized to the individual employee and their stated goals. "Find out what areas they're interested in and create a leadership development pipeline for them," Hutchens recommended. The goal is to close the gap between the skills they have and the skills they will need in order to be successful in a future role.

Finally, each leadership development plan must include a retention strategy, and it must be customized for each high-potential employee. "Most banks have Baby Boomers, Gen Xers, and Millennials all in the same bank, and they all have different ideas of what's important from a compensation and retention standpoint," said Fritz. For example, many institutions have traditional hierarchical structures where employees climb up the rungs of a ladder as they advance—this structure doesn't appeal to every generation. "If you want to keep Millennials, turn the ladder horizontal," Hutchens advised. "Each rung is no longer a raise and a new title, but a new project that tangibly shows them you're investing in them." One retention strategy that works for nearly every employee: communication. "Open and honest communication with the individual you see potential in is critical," said Gargaro. "They need to know they're being considered for a future leadership position."

The need for generationally customized retention tactics directly correlates with the top challenge banks face with recruitment. "Many Millennials coming up are looking for professions other than banking," said Piette. "We need to continually share the reasons why banking can be a fun and great, rewarding career opportunity for individuals coming out of college. That's the heart of our industry moving forward: attracting and retaining that talent."

When creating your bank's leadership development plan, focus on the desired end result. "At the end of the day, leadership development and investment is about enhancing and supporting the way your people think, problem-solve, and influence others," said Hutchens. "Change the thinking, and you'll change the behavior and change the results."

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*Seitz is WBA operations manager – senior writer.*

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*EBN is a WBA Bronze Associate Member.*

# Educating Professionals, Creating Leaders

## *Now accepting scholarship applications from Wisconsin bankers*

The Wisconsin Bankers Association is pleased to offer scholarship opportunities to its member bankers through the Herbert V. Prochnow Educational Foundation, a supporting organization to the Graduate School of Banking at the University of Wisconsin – Madison. The GSB Prochnow Foundation offers nearly one quarter million dollars in scholarships every year to bankers who want to improve their careers and organizations through education. Scholarships are distributed through the WBA for the Graduate School of Banking and the GSB Human Resource Management School. Apply today for a scholarship to attend a program at the nation's leading and most progressive banking school. For details, contact WBA's **Nick Loppnow** at 608/441-1208 or *nloppnow@wisbank.com*.

# Order Your Reading Raises Interest Kit Today!

Did you know the Wisconsin Bankers Foundation (WBF) offers a *complimentary* community outreach tool to every WBA member bank branch? It's true! During financial literacy month last April, the WBF shipped over 300 Reading Raises Interest Kits to banks across the state. Bankers then used the kits to conduct nearly 400 presentations to children about the importance of saving and spending wisely.

The kits are an easy way to get involved in financial literacy efforts in your community, and contain everything you need in order to conduct a classroom presentation at a local school. This year's kit features the book *A Chair for My Mother* by **Vera B. Williams**, a story in which a young girl and her family save money in a jar to buy a chair after their furniture is destroyed in a fire, demonstrating strategies for saving along the way. The kit also contains a downloadable lesson plan and activity instructions appropriate for 1st and 2nd grade students and a customizable handout for students to take home, as well as other resources.

All kit orders must be received by **March 2, 2018** in order for the books to be shipped by April, so order your free* kit today at *www.wisbank.com/ReadingRaisesInterestKits*!

Please direct questions to **Amber Seitz** at 608/441-1237, *aseitz@wisbank.com*.

*You can help keep the kits free with your ***tax deductible*** donation to the Wisconsin Bankers Foundation.

**Register online at www.wisbank.com/EconForecast.**

WISCONSIN ECONOMIC FORECAST luncheon

**January 22, 2018**
Alliant Energy Center
Madison

**#WisEcon**

**Noon to 2:30 p.m.** (Includes lunch at noon)

**Registration** (11:30 a.m.)
$75 per person or $400 for a table of 8

**Welcome/Introductory Remarks** (12:15 p.m.)
**Jeff Mayers**
WisPolitics.com and WisBusiness.com

**Speakers:**
**Augustine Faucher**
Chief Economist
The PNC Financial Services Group

**William Fruth**
President
Polycom Corporation

Register online at *www.wisbank.com/EconForecast.*

Questions: Please contact WBA's Patty Rogers at 608.441.1209 or *progers@wisbank.com.*

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# WBA WISCONSIN ECONOMIC REPORT

A compilation of sector forecasts from industry experts.

*Wisconsin Bankers Association*

## Strong 2018 for Wisconsin Banks ...if Congress Cooperates

*By Rose Oswald Poels, WBA President and CEO*

The banking industry continues to be a central player in driving economic growth across the state. Through the third quarter of 2017, Wisconsin's 212 headquartered financial institutions held well over $80 billion in net loans and leases, an improvement of over 5% from the prior year. This steady, continued growth in the industry's loan portfolio coupled with a similar steady decline in noncurrent loans and leases is evidence to support the fact that Wisconsin's economy is healthy and growing.

Nearly 99% of Wisconsin's headquartered financial institutions are profitable as of the third quarter of 2017, and nearly 64% of these same institutions saw earnings gains. Lending by Wisconsin headquartered financial institutions is up year-over-year in almost all categories, according to third quarter 2017 numbers released by the Federal Deposit Insurance Corporation (FDIC). Total deposits at these same financial institutions is also up from the prior year to a total of nearly $88 billion. Financial institutions continue to be trusted by consumers to protect their hard-earned money which is evidenced by the continued growth in total deposits. Given the health of our state's economy and the attraction of new businesses to our state, I expect these trends to continue at a steady pace in 2018.

Average net interest margin, which is a key measure of bank profitability, continues to hold steady in the third quarter of 2017 at 3.46% for Wisconsin headquartered financial institutions, higher than the national average of 3.30%. Looking ahead to 2018, I expect there to be continued steady interest rate hikes by the Fed under incoming Chair **Jerome Powell** in 2018 as his philosophy related to interest rate hikes is similar to that of current Fed Chair **Janet Yellen**. As interest rates continue to rise, this presents challenges for Wisconsin's financial institutions as their core funding costs will continue to rise against a larger portfolio of long-term assets. As of the third quarter of 2017, the cost of funding earning assets grew to .50% while the long-term assets (5+ years) on the books of these financial institutions increased nearly 7% from the prior year. In addition, traditional financial institutions face growing competition from unregulated online lenders, tax-advantaged institutions, and certain fintech companies.

Merger and acquisition (M&A) activity among Wisconsin's financial institutions continues, and I expect the pace to increase in 2018 compared to 2017. The number of headquartered financial institutions in Wisconsin fell in the third quarter of 2017 from the prior year by 6.6%, from 227 to 212. This was largely due to the heavy pace of M&A activity that was announced in calendar year 2016. At that time, heavy regulatory burden and rising technology and compliance costs, coupled with succession issues and general fatigue among bankers contributed to the pace of M&A activity.

In 2018, I am hopeful that we will begin to realize the easing of regulatory burden as well as tax relief with the passage of prudent reforms in Congress. These actions will help contribute positively to the earnings of financial institutions, which may help drive stronger M&A activity. In addition, those institutions with very strong core deposits will become increasingly attractive to institutions that don't have high core deposits as a way to satisfy funding

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*Wisconsin REALTORS® Association*

# Wisconsin Housing Market Fueled by Strong Demand but Weak Inventory

*By Michael Theo, WRA President and CEO*

The Wisconsin economy has been strong in 2017, with solid job growth, low unemployment, and low inflation. Specifically, total nonfarm jobs grew by 42,400 between October 2016 and October 2017, with 13,000 new jobs in manufacturing over that time period. The unemployment rate has been below 4% throughout the first 10 months of the year, which is considered full employment by economists. Finally, inflation is in check, with the annualized inflation rate at 2% in October 2017. The combination of a good economy and mortgage rates below 4% should have generated strong growth in home sales in 2017, but continued weak inventory levels, especially in the metropolitan areas, have kept sales only slightly ahead of the 2016 pace. Weak supply pushed home prices up at an annual pace of 6% for the first 10 months of 2017 relative to that same period in 2016. There were just 5.1 months of supply statewide in October, and only 3.9 months in the metropolitan areas of the state. Below six months is considered to be a seller's market. While the millennial generation is starting to move into owner-occupied housing, both the tight supply and continued high levels of student debt have driven national first-time home buyer rates to just 34% of all housing sales, according to the 2017 Profile of Buyers and Sellers conducted by the National Association of REALTORS®. This compares to a long-run average of 39%.

The national economy for the next year should remain strong, especially if the U.S. House and Senate can agree on a tax overhaul bill. The Fed remains committed to a restructuring of its balance sheet and slowly raising short-term interest rates. The nomination of **Jay Powell** to be the next Fed Chairman, succeeding **Janet Yellen**, suggests no radical change in Fed strategy under the new chairman. While the current economic expansion is 73 months in length, and the average post-war expansion has been 58.4 months, the last three expansions have averaged 95 months in length. Given the modest growth coming out of the Great Recession, and the tendency of the current administration to reduce regulation and cut taxes, the likelihood of a recession in the next year is remote. Indeed, the Philadelphia Fed's Survey of Professional Forecasters put the risk of negative growth in Real Gross Domestic Product at just 18.1% by the third quarter of 2018. In addition, the Conference Board reported at the end of October that Consumer Confidence had hit its highest level since December 2000. The state economy should remain healthy in 2018, and the combination of growth derived from expansions of Amazon and Foxconn as well as other existing firms in the state bodes well for continued economic growth.

The challenge for the state housing market for 2018 will be to mitigate supply constraints. There are three primary sources of housing supply: foreclosed properties, new construction, and new listings of existing homes. Foreclosures are thankfully at normal pre-recession levels, so they are no longer a major source of supply. New construction has been steadily improving, but has been constrained by labor shortages in the trades as well as restrictions on land development in some areas. Finally, many Baby Boomers have resisted moving post-recession, choosing instead to age-in-place. However, as this generation continues to age, health-driven housing transitions will move more of those homes onto the market. Modest improvement in new listings is likely over the next year.

The federal tax overhaul was still being debated at the time this article was written but many of the proposed changes with respect to residential real estate have met with strong opposition from the National Association of REALTORS®, homebuilders, and others. The impact of proposed changes in mortgage interest and state and local tax deductions may be less severe in Wisconsin than states where housing values are much higher because the current proposals cap the amount that can be deducted rather than eliminate them in total. Wisconsin has high property tax rates, but its median home prices are well below those seen in the heavily urbanized east-coast and west-coast markets, and the majority of homes would be below the cap-level on both mortgage interest and state and local tax deductions. A more troubling aspect of the proposal is the elimination of interest deductions on second homes, which could have significant ramifications on the northern regions of the state. Overall, if federal policymakers maintain the deductions on second homes, keep mortgage rates low, and reduce the tax and regulatory burden, and if state and local officials hold the line on property tax rates, 2018 is shaping up to be another solid year for the Wisconsin housing market.

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*Founded in 1909, the Wisconsin REALTORS® Association (WRA) is one of the largest trade associations in Wisconsin. It represents and provides services to more than 15,000 members statewide. WRA's goal is to promote the advancement of real estate in Wisconsin and provide cutting-edge tools to help REALTORS® enjoy a successful career and be competitive in their market.*

*Wisconsin Farm Bureau Federation*

# May the Best Navigator Win

*By Dale M. Beaty, WFBF Chief Administrative Officer*

In 1928, **John A. Shedd** wrote "a ship in harbor is safe, but that is not what ships are built for."

In 2017, Wisconsin agriculture isn't a small sailboat safe in harbor; it's a huge ocean-going cargo vessel carrying a variety of food and agricultural products across our nation and around the world. Annually, agriculture contributes $88.3 billion to the state's economy.

As we head into a new year, Wisconsin farmers face new challenges. Those farmers who best navigate the changing tides by using risk management tools will be the winners in this new age of agriculture.

Low farm prices from 2017 are sure to carry over into 2018, as will the uncertainties surrounding key farm-related legislation.

The Farm Bill is a prominent piece of agricultural legislation that renews, on average, every five years. It is a multilayer piece of legislation which governs farm and nutrition programs. Of critical importance to farmers, the Farm Bill provides a safety net in difficult times.

It is imperative the 2018 Farm Bill becomes law in a timely manner in order to provide certainty for farmers and consumers and to maintain a plentiful and strong food system. The Farm Bill is somewhat of a misnomer because only 20 percent of Farm Bill funds go to farmers, while 80 percent of Farm Bill funds go to federal nutrition programs such as the Supplemental Nutrition Assistance Program (SNAP).

Mother Nature is every farmer's temperamental business partner, so risk management options are a must. Crop insurance is a vital risk management tool for farmers. The two farm safety net programs created in the 2014 Farm Bill, Price Loss Coverage and Agricultural Risk Coverage, are needed to provide certainty for farmers.

In addition to the anxiety Mother Nature causes, dairy farmers found themselves in uncharted waters this year when milk processing companies notified some farmers they would no longer take their milk because there was too much supply and too little demand. Milk prices are expected to be slightly lower in 2018, and many dairy farmers are already in survival mode.

Dairy farmers have long been challenged with milk price variability and fluctuating inputs such as feed costs. Today's risk management programs do not manage milk price risk directly. Without some better protection, dairy farmers will continue to struggle.

American Farm Bureau is proposing a new concept which helps dairy farmers manage their risks. It is a program based on futures markets which allows farmers to set a floor below which their milk price will not fall. The program would be run by USDA's Risk Management Agency, and rates would be based on market signals. The new proposal would give farmers another tool in the toolbox.

When discussing uncertainties, farmers are watching international trade discussions very intently. In 2015, exports of agricultural products contributed $2.8 billion to Wisconsin's economy. With one of every nine tankers of Wisconsin milk heading outside of our country, trade is critical to our farmers' success in 2018 and beyond.

While uncertainties have taken the wind from our farmers' sails, crop and animal breeding technology and water management are the winds filling their sails and propelling them into a new era driven by data.

Farmers have never had so many options when it comes to genetics. Whether concerning animals or plants, there is little they can't tell you about what they raise and grow.

> "This past year has showcased the ability of our farmers to improvise, adapt, and overcome all obstacles to excel."
>
> – Dale M. Beaty
> WFBF Chief Administrative Officer

Water management practices are also setting our farmers up for success. With more than 10 producer-led efforts in Wisconsin, our farmers are more conservation-focused and future-thinking than ever before.

This past year showcased the ability of our farmers to improvise, adapt, and overcome all obstacles to excel in feeding, fueling, and clothing our nation and the world. They improvised by using technology to grow more of the safest and healthiest food using less land, less water, less fertilizer, less fuel, and fewer chemicals. They adapted to challenging weather during the entire growing season. They overcame high input prices and low sale prices.

Over the next year, Wisconsin's farmers will likely be forced to continue navigating rough economic seas; however, by using the right risk management tools, they will be successful doing what they do best: farm.

*WFBF is the state's largest general farm organization, representing farms of all sizes, commodities, and management styles. There are more than 46,000 members that belong to the Wisconsin Farm Bureau. Voting Farm Bureau members (farmers) annually set the policy the organization follows, and are involved in local, state, and national affairs, making it a true grassroots organization.*

*Wisconsin Grocers Association*

# Here Comes the 2018 Grocery Biz Roller Coaster

*By Brandon Scholz, WGA President and CEO*

Peering into the 2018 retail crystal ball is frankly, a bit scary. Not from the doom and gloom perspective but rather in the speed with which retail markets are changing, adapting, and moving forward.

A look back into 2017 really tees up many of the things that retailers will have to deal with not only this year, but in the future.

Let's start by painting the big picture: technology, profits, workforce, customers, and policy. Retail, whether it's grocery and convenience stores, apparel, hardware, electronics, or others, factor these components into their forecasting and business plans.

The retail grocery sector dealt with a sustained run of deflation, putting excruciating pressure on its traditional razor-thin margins. While even lower prices were great for consumers, deflation had a negative impact on retailers directly and pushed prices to historically low points. Through May of 2017, the 12-month adjusted CPI average per the U.S. Department of Labor and Statistics was negative for "Food at Home" at minus 0.2%.

The good news for retailers is that the Economic Research Service at USDA says, looking ahead to 2018, retail food prices are expected to rise between 1.0 to 2.0 percent; that is still a great deal for grocery shoppers.

A top legislative leader recently asked me what sort of workforce training program would be helpful to the grocery industry. My response was that we need to have a larger pool of people to hire from, and then we can talk training. The retail industry has plenty of good programs to keep the workforce current and in compliance. Policymakers must continue to listen and respond to the business sector and develop legislative solutions to mitigate costly regulatory burdens, allow for changes in the marketplace, and support economic development and workforce growth.

According to the U.S. Census Bureau, Wisconsin small businesses employed 1.2 million people, or 50.7% of the private workforce, in 2013. The Bureau of Labor Statistics reported private-sector employment increased 1.0% in 2015. Even under some challenging economic conditions, the Bureau of Economic Analysis noted that in the second quarter of 2016, Wisconsin grew at an annual rate of 1.6%, which was faster than the overall U.S. growth rate of 1.2%. But there are still not enough people in the workforce to fill workplace jobs. Finding and hiring new employees was a huge challenge in 2017 and the prospect for 2018 looms even more ominous.

My Cloud Grocer, a grocery eCommerce software platform, notes that going shopping is not what it used to be. Merchants of all stripes face pressure from changing consumer behavior, the relentless expansion of Amazon, and other massive companies targeting their markets.

At one time there was a large brick and mortar shoe retailer who refused to believe that their customers would buy shoes online because "Who would buy shoes without trying them on?". Well, Zappos is one of the top-rated online retailers in the shoe biz… So much for having to try on the shoe.

Customers are shopping online for more items, and groceries are rapidly becoming a part of that psyche. Morgan Stanley Research (MSR) notes that traditional grocers have entered the online world and are competing on price, quality, and service and expanding choices. "Given online grocery's low market share of overall grocery sales (around 2% in the U.S.) it offers significant potential for growth," says MSR.

Online grocery shopping is not coming. It's here and growing, and it's not because Amazon bought Whole Foods. Retail has to accommodate its customers, ranging from seniors to millennials. While online grocery shopping sales is now in single digits, it's trending up, and up, and up.

I side with the collection of experts who caution the industry, investors, and others to not overreact to the Amazon/Whole Foods deal. Retail grocers aren't going away. They will adapt, change, modify, and continue to serve their customers. They will figure out what the balance is between in-store and online shopping. If anything, Amazon made grocers think, plan, and implement faster than they usually do.

And, Amazon will figure out how difficult it is to compete in the grocery biz, both online and in-store. By shutting down home-delivery in nine major U.S. markets, Amazon (like Peapod years ago) is finding out how expensive it is to compete in that last delivery mile.

There's nothing boring or static about the retail sector in Wisconsin. There's never a dull moment, and sales will ring up for quality products at competitive prices delivered with service and a smile… even online.

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*The Wisconsin Grocers Association represents nearly 1,000 independent grocers, retail grocery chain stores, warehouses and distributors, convenience stores, food brokers andsuppliers. Wisconsin grocers employ over 50,000 people with $815 million in payroll and generate more than $6 billion in annual sales in Wisconsin resulting in approximately $250,000,000 in state sales tax revenue.*

*Wisconsin Hospital Association*

# Despite Uncertainty in Washington, WI Health Care Steadily Leads the Nation

*By Eric Borgerding, WHA President and CEO*

2017 was another year of outstanding performance from Wisconsin's health care system. The highly regarded Agency for Healthcare Quality and Research (AHRQ) ranked Wisconsin health care #1 in the country. This was one of several studies last year that Wisconsin health care, including having the highest quality rural hospitals, being one of the best states for physicians, the best state for nurses and the best provider-owned health plans in the country.

While these accolades are noteworthy, more remarkable is Wisconsin's sustained performance. Last year's top AHRQ ranking was laudable, but even more impressive is that in the 11 years these rankings have been released, Wisconsin has never shown worse than seventh (#1 three times, #2 four times). Our top ranked health care also delivers downstream benefits for Wisconsin businesses. In times of severe labor shortages, every day on the job matters, and Wisconsin leads the nation in returning injured workers back to their jobs, back to productivity.

Wisconsin's health care has been so good for so long that most people take it for granted. However, a recent WHA poll of our member hospital and health system leaders, those in part responsible for sustaining that excellence, revealed growing concern over the instability of the insurance market and its impact in Wisconsin.

In my column last year, I said repealing Obamacare, which seemed a certainty in the wake of the election, would prove easier said than done… and it has. Love or hate it, nearly a quarter million Wisconsinites get health insurance from the Obamacare exchange (and probably three times that number are happy their kids, parents, or friends have that coverage). Since Obamacare went into effect in 2014, Wisconsin's uninsured rate, now at 5.7%, has been nearly cut in half. That's the good news. At the same time, insurance premiums on the exchanges have been steadily rising, indeed spiking in 2018 by an average of 36% in Wisconsin. Generous federal subsidies mean most exchange enrollees won't feel these increases, but those subsidies cost money and Uncle Sam is picking up the growing tab.

One of the key ingredients for high-performing heath care systems is access to insurance coverage. It's one of the reasons Wisconsin has performed so well for so long. But if Congress can't deliver on its pledge to *replace* Obamacare, where does that leave us? The current system could limp along, crippled by incrementally dismantling its components which, absent a comprehensive replacement, will exacerbate both premium increases and taxpayer costs. And if the exchanges eventually fall apart (as some policymakers desire) with nothing to replace them, the ranks of uninsured could swell.

These are not armchair contemplations for Wisconsin health care leaders. As noted in our member survey, the fragmented state of Obamacare is one of the "keep you up at night" concerns most gripping health care today. Since becoming law in 2010, our members have been redesigning care systems and realigning resources within the policy and regulatory frameworks of Obamacare. Given a relative level of stability, some semblance of certainty, Wisconsin health care leaders will not only adapt, but as the record shows, they will excel under any environment. After years of dealing with Dodd-Frank and its related regulatory upheavals, Wisconsin's banking industry can certainly empathize with health care's desire for stability and clarity.

Amidst unprecedented uncertainty one thing has, unfortunately, remained constant: the price-inflating dynamic of government "cost shifting." To be sure, more insurance coverage has meant fewer unpaid medical bills and "uncompensated care" in hospitals has fallen along with our uninsured rate. But wiping out those gains are growing losses from government programs like Medicaid and Medicare.

Medicaid reimburses Wisconsin hospitals about 65 cents for every dollar they spend providing care, Medicare about 78 cents. Those pennies add up to about $2.8 billion/year in unpaid costs (not charges) that must be shifted to everyone else. According to the Greater Milwaukee Business Foundation on Health, below cost hospital reimbursement from these two programs accounts for about 31% of the price of hospital care for businesses in southeastern Wisconsin. It's a phenomena WMC dubbed "the hidden health care tax" and adds billions to the health care spend for employers, workers, and families. For Medicaid alone the "hidden health care tax" now tops $1 billion annually, **higher than any actual tax** in Wisconsin, including the corporate income tax. The piecemeal disassembly of Obamacare won't address that ongoing problem and could actually make it worse.

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*Established in 1920, WHA's mission is advocating for the ability of its members to lead in the provision of high quality, affordable, and accessible health care services, resulting in healthier Wisconsin communities. WHA is committed to serving member needs, keeping members informed of important local and national legislative issues, interpreting clinical and quality issues for members, providing up-to-date educational information and encouraging member participation in Association activities.*

*Wisconsin Technology Council*

# Keep Your Money Riding on State Economy in 2018

*By Tom Still, WTC President*

I may hop the next plane to Las Vegas to play the roulette tables. My winning streak of late could win me some money.

In this space in 2017, I predicted the broadband logjam would be broken. The Information Technology and Innovation Foundation just ranked Wisconsin 11th among the 50 states in that category, a surprising jump. I also forecast that BigCo's would invest in southeast Wisconsin. Little did I know it wouldn't be homegrown companies but a little Taiwanese outfit called Foxconn.

The 2016 forecast talked about the importance of wooing and keeping millennials, a topic that is currently all the rage.

My crystal ball for 2015 laid out four tech goals for policymakers: enhancing Wisconsin's startup and scale-up business climate, building the state's supply of knowledge-based human capital, improving access to capital for Wisconsin entrepreneurs, and improving technology development, delivery, and transfer from the lab bench to the marketplace. Check, check, check, and check.

I could quit while I'm ahead, which would be the smart Vegas thing to do, but I might as well double down on Red 23 and let the wheel spin again.

**1. The incredibly shrinking stock market will continue to help small- to mid-sized private companies.** Fewer companies are going public, which means more dollars are chasing fewer deals on the New York Stock Exchange and the NASDAQ. Major companies are sitting on plenty of cash and some invest it by paying attention to smaller firms, especially those in the same industry space. That's happening in Wisconsin, where corporate investors are adopting young tech companies to speed internal innovation. Big company executives no longer think "entrepreneur" is French for "unemployed dreamer."

**2. The Foxconn deal will look better as China gets stronger.** Will the rest of the 21st century be the Next American Century… or will the world's most populous nation use its huge trade imbalance, tech investments, and buying power to make it the Chinese Century? States such as Wisconsin that invest in a strategic advantage, such as a $10 billion liquid crystal display factory, are prepared to move either way.

**3. The I-Q Corridor will become more of a reality.** That's the name I coined years ago for the interstate corridor connecting the powerhouses of Chicago, Milwaukee, and Madison with points north and west. Foxconn will anchor the southern link with its plant near Racine and more companies are shortening the 85-mile link between Milwaukee and Madison. There was a time when the Milwaukee "old guard" looked on Madison with a mix of envy and disdain, but a younger crew in the state's largest city doesn't seem to carry those grudges.

**4. Startup fever will spread in Wisconsin.** To date, it's been largely a function of the Big Two cities, but Wisconsin has always been a state of mid-sized cities. Progress will continue in places such as Janesville, Beloit, Eau Claire, Kenosha, Racine, La Crosse, Appleton, and Green Bay as young companies and workers emerge.

I'm packing light for that Vegas trip, where the roulette tables await, and I'm placing my 2018 bet on Wisconsin.

*The Wisconsin Technology Council includes the Wisconsin Innovation Network, the Wisconsin Angel Network, and the annual Governor's Business Plan Contest.*

## Wisconsin Bankers Assn.

*(continued p. 11)*

needs. I expect M&A activity in 2018 to affect closer to 10% of our state's headquartered financial institutions.

Our financial institutions power Wisconsin for the betterment of individuals, businesses, and communities. Financial institutions uniquely help local communities grow and thrive through the loans they make to, and the trusted wealth management advice they share with, individuals and businesses. In addition, the banking industry contributes significant financial and human resources to countless local causes and charities. It is in the interest of our entire state to support state and federal legislative policies that keep diverse financial institutions healthy and operating in Wisconsin. Meaningful regulatory and tax reform are two key legislative agenda items that must be passed at the state and federal level to help our industry.

With the continued strong economy moving into the new year, and the assumption that legislation will pass which starts to ease regulatory and tax burdens, I expect financial institutions to have another successful year in 2018.

*Founded in 1892, the Wisconsin Bankers Association is the state's largest financial industry trade association, representing nearly 250 commercial banks and savings institutions and their almost 2,300 branch offices and 23,000 employees.*

*WisPolitics.com/WisBusiness.com*

# 2018 Landscape for State, National Politics

*By Jeff Mayers, WisPolitics.com President*

Usually a good economy is good for incumbents. And by most any account, the economy in late fall 2017 was doing very well—low unemployment, steady growth, and good results in the stock markets. But with polarization pulsating through Madison and Washington, D.C. and through the electorate, election watchers say 2018 could be a year of change at the ballot box.

History says the party in power in Washington, D.C. often struggles in the first mid-term election—even more so when the new president's numbers are poor. That history and Fall results across the country appeared in late 2017 to give some early momentum to Democrats as Gov. **Scott Walker** formally launched his bid for a third, four-year term and more Democrats swelled the field of challengers (a field mocked by Republicans as weak).

Also getting top billing on the 2018 ballot is the U.S. Senate race. Democrat **Tammy Baldwin** of Madison will have a strong challenge from Republicans in her first re-election bid after beating **Tommy Thompson** in 2012. As of late 2017, the major GOP challengers were state Sen. **Leah Vukmir** of Brookfield and Marine combat veteran and business consultant **Kevin Nicholson** of Delafield. Big money was already flowing into the race from inside and outside Wisconsin as of this writing—confirming the high national stakes: control of the U.S. Senate.

So what was the political environment in late 2017? Polling that shows 41% of Wisconsin voters strongly disapprove of President **Donald Trump's** job performance could make for a "challenging environment" for Republican candidates in next year's races, according to the CEO of D.C. polling firm Morning Consult.

The results also showed Trump's approval in the state of Wisconsin was lower than it was nationally—35% of Wisconsin voters strongly or somewhat approve compared to 40% across the country. Of those findings, just 14% in Wisconsin strongly approve of Trump's performance compared to 18% nationally.

The firm's co-founder and CEO **Michael Ramlet** referred to that as a "softer base"—something that should be making Wisconsin GOP politicians nervous. "When I start looking at Trump's approval, this is where I would start to get antsy if I was a Republican member or senator or candidate," the Wisconsin native told a WisPolitics.com breakfast in D.C. in November.

The poll also found Walker's approval rating underwater, with 50% of respondents who somewhat or strongly disapprove of the job he was doing while 41% somewhat or strongly approve.

Meanwhile, Walker's approval was highest among Wisconsin Republicans, where 80% either strongly or somewhat approved of his performance. But among Dems, 80% instead either strongly or somewhat disapproved.

As for Baldwin, 38% of respondents strongly or somewhat approved of her work while 41% somewhat or strongly disapproved; 19% said they didn't know or didn't have an opinion, despite Baldwin facing a "pretty competitive race" in 2012 against Thompson, Ramlet said, adding: "That was six years ago, and it seems like a lifetime ago in American politics."

And, he noted, last time around Baldwin—along with the other U.S. senators up for re-election—ran during a President Obama re-election bid, saying the coalition he put together looks "very different" from the voter base in a mid-term election.

Of the poll respondents who supported **Hillary Clinton** for president last year, 67% strongly or somewhat approved of Baldwin while only 18% strongly or somewhat disapproved. Among Trump supporters: 73% strongly or somewhat disapproved of the Madison Dem while only 17% strongly or somewhat approved.

But Ramlet predicted independent voters would be the ones "that will really kick in in this race"—especially those who only registered a somewhat approval or disapproval of Baldwin.

The poll's results show 28% of respondents who identify as independent somewhat approved of Baldwin, 6% strongly approved, and 22% each strongly or somewhat disapproved, while the remaining 22% didn't have an opinion.

Another poll from a different firm showed similar results. The poll from the Dem firm Public Policy Polling found Walker trailing a generic Democratic opponent and his job approval numbers upside down; 43% of voters surveyed approve of the job he's doing, while 49% do not. Meanwhile, a generic Dem opponent led 48-43.

In addition, the statewide automated phone poll of more than 1,100 registered voters in October showed:

- 40% approved of the job Trump was doing, while 52% disapproved.
- And Dems led the generic legislative ballot 44-41, but Republicans have strong majorities in the state Assembly and Senate.

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*Jeff Mayers is president of WisPolitics.com and WisBusiness.com. The websites are specialty online news organizations that provide subscriber services and organize news events in Madison, Milwaukee and Washington, D.C.*

*Wisconsin Manufacturers & Commerce*

# Focus on What We Can Control

*By Kurt R. Bauer, WMC President and CEO*

*"God grant me the serenity to accept the things I cannot change; courage to change the things I can; and wisdom to know the difference."*

I apply **Reinhold Niebuhr's** famous Serenity Prayer to WMC's legislative agenda because there are things Wisconsin can do to control our economic destiny and there are things that are simply outside our control, especially given that Wisconsin accounts for less than two percent of U.S. GDP.

For example, Wisconsin unfortunately has little say in the renegotiation of the North American Free Trade Agreement (NAFTA) that has a big impact on our manufacturers and farmers. Trade between Canada and Mexico equals 46 percent of all state exports and accounted for $9.6 billion in 2016. At least 249,000 Wisconsin jobs are dependent on NAFTA.

A study released in November 2017 by the U.S. Chamber of Commerce said Wisconsin "would suffer acutely" if the U.S. were to withdraw from NAFTA. The study further says that because so many of our manufactured and agricultural products (particularly dairy) are exported, Wisconsin would be the second-hardest hit state if NAFTA went away.

Wisconsin similarly didn't have a say in the decision to withdraw from the Trans-Pacific Partnership (TPP), which originally included the U.S., along with 11 other nations. Most economists tie GDP growth with population growth. The working-age population is flat in Europe and the Americas and is declining in Australia. Africa and Asia are growing population, but only Asia is seeing a corresponding expansion of middle class wealth, making the largest continent the most lucrative potential market for U.S. exports for the foreseeable future. The U.S. not being in the TPP will make it harder for Wisconsin companies to find the customers needed to compensate for stagnation elsewhere.

Birthrates in Wisconsin have been below replacement levels for at least two decades. The result is a critical workforce shortage that is projected to get worse. Part of the solution should be legal immigration, but the dysfunction in the federal system has become another economic issue outside our control. Wisconsin boasts some of the best public and private colleges and universities in the world, which attract the best and brightest students from abroad. But when foreign students earn their degree, too many are denied an H1-B Visa to stay and work in the U.S. Instead, they are sent home to compete against us.

The good news is that over the last eight years Wisconsin has maximized the opportunities we have had to control our state's economic fortunes. We have enacted an impressive list of tax, regulatory, litigation, and other reforms that have taken Wisconsin from the bottom 10 to the top 10 in *Chief Executive Magazine's* annual business climate ranking. Act 10, Right to Work, tax relief like the Manufacturers and Agricultural Production Tax Credit, numerous legal reforms, and checks on the power of unelected bureaucrats to promulgate rules are why Wisconsin is outpacing its neighbors in many important economic metrics. It is also why we are seeing Wisconsin companies choosing to expand here and why other companies, like Haribo and Foxconn, are moving here.

> "The good news is that over the last eight years Wisconsin has maximized the opportunities we have to control our state's economic fortunes."
>
> – Kurt R. Bauer
> WMC President and CEO

But there is always more work to be done. At the top of WMC's list is aligning the state and federal versions of the Family Medical Leave Act and following 44 other states in enacting a fee schedule to contain skyrocketing Workers Compensation medical costs. WMC also wants to stop local governments from creating a complicated patchwork of environmental regulations and from imposing various human resource-related mandates on employers. Wisconsin also needs to improve high-speed Internet access in rural Wisconsin and fight the opioid and methamphetamine epidemic that is taking too many valuable people out of the already-shrinking labor force. Finally, we need to dedicate more resources to market our high quality of life and diverse career options to encourage inward migration to Wisconsin.

*Founded in 1911, Wisconsin Manufacturers & Commerce (WMC) is the combined Wisconsin Chamber of Commerce, Manufacturers' Association and Safety Council. WMC represents 3,800 employers of all sizes and from every sector of the economy.*

*Wisconsin Bankers Association*

# Calendar of Events

*January – May 2018*

Visit *www.wisbank.com/education* to find out more about these programs, register or browse a full list of WBA Education events. Please direct questions to the WBA Education Department at 608/441-1252 or *wbaeducation@wisbank.com*.

## Conferences

Capitol Day
Jan. 16 | Madison
*(See sidebar on p. 5.)*

Bank Executives Conference
Feb. 5-7 | Madison
*(See article on p. 7.)*

## FIPCO Events

Threat Intelligency Briefing
Jan. 25 | Brookfield
*(Visit www.fipco.com/events.)*

## Forums

Compliance Forums
Feb. 20 | Stevens Point
Feb. 21 | Wisconsin Dells
Feb. 22 | Pewaukee

## Luncheon

Wisconsin Economic Forecast Luncheon
Jan. 22 | Madison
*(See p. 10 for more details.)*

## Schools

Commercial Lending School
Feb. 19-23 | Wisconsin Dells

Residential Mortgage Lending School
Feb. 19-23 | Wisconsin Dells

Real Estate Compliance School
March 13-15 | Wisconsin Dells

Introduction to Commercial Lending School
March 20-22 | Wisconsin Dells
*(See WBA Featured Events.)*

## Seminars/Workshops

Community Bankers for Compliance Program
Jan. 23 | Stevens Point
Jan. 24 | Madison

Call Report Update & Review Workshop
Feb. 15 | Wisconsin Dells
March 26 | Live Streaming

HR for Managers
March 1 | Madison

Advanced IRA Workshops
March 14 | Wausau/Rothschild
March 15 | Madison

Security Officer Workshops
March 20 | Neenah
March 21 | Eau Claire
March 22 | Wisconsin Dells

## Summits

2018 ABA Government Relations Summit
April 23-25 | Washington, DC

ICBA 2018 Capital Summit
April 29-May 2 | Washington, DC

## Webinars *(online training)*

Loan Documentation Webinar (Three-Part) Series
Jan. 9 | Feb. 13 | March 13
*(See WBA Featured Events.)*

Digital Marketing: Deep Dive Webinar | Jan. 9

Incident Response – Plan to Fail Well Webinar | Jan. 10

*(Register online for webinars at www.wisbank.com/education.)*

> Register online for WBA events at *www.wisbank.com/education.*
> Register online for FIPCO events at *www.fipco.com/events.*

WBA's social media efforts focus on communication, advocacy:

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# WBA Featured Events

## *Webinar Series, Lending School*

### Loan Documentation Webinar Series

Jan. 9 | Feb. 13 | March 13 *All webinars are 8:30-10:30 a.m.*

This webinar series is designed to provide a basic understanding of loan documents and related concepts. Using real-life examples, the forms, laws, and regulations pertaining to documenting these loans will be thoroughly discussed. Participants will build the necessary foundation for attending future WBA lending schools and workshops.

*Session 1: WBA Fundamentals of Loan Documents* – This webinar will review in detail the importance of the many components of loan documents, and the significance of security interests and priorities in collateral.

*Session 2: WBA Introduction to Commercial Loan Documentation* – For commercial loans, this webinar will review proper documentation of a loan to a limited liability company and a loan to a sole proprietor, each with various types of collateral including business assets and equipment, life insurance, stock, brokerage accounts, and a home.

*Session 3: WBA Introduction to Agricultural Loan Documentation* – For agricultural loans, this webinar will review proper documentation of a loan to an individual to buy a tractor and a loan to a married couple secured by all farm collateral where the loan is repaid from milk sales.

Learn more and register at *www.wisbank.com/events/wba-loan-documentation-webinar-series*.

### Introduction to Commercial Lending School

March 20-22 | Wisconsin Dells

Curriculum for the spring 2018 WBA Introduction to Commercial Lending School is designed to provide bankers with a basic understanding of the principles and concepts of commercial lending. The material is geared toward bankers who are relatively new to commercial lending and want to develop strong lending skills. Topics covered by the coursework include loan structuring and investigation, cash flow, ratio calculation and trend analysis, collections and bankruptcies, lending to start-ups, commercial lending laws, lending decisions, documentation, government programs, and more! Read more about the school curriculum and reserve your spot today at *www.wisbank.com/events/introduction-to-commercial-lending-school*. Hurry! Enrollment is limited to 30 spots!

Please direct any questions about upcoming WBA education programs to WBA's **Miranda Helt** at 608/441-1270 or *mhelt@wisbank.com*.

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# Bulletin Board

*News about people working in Wisconsin's financial institutions*

## Promotions and New Hires

### Elroy

**Glenda Faull** *(pictured)* assumed the role of executive vice president and chief banking officer (EVP/CBO) and was appointed to serve on the Royal Bank Board of Directors. Glenda celebrated 40 years in banking in 2017 and 22 years with Royal Bank.

### Madison

Bankers' Bank has hired **Robert Jarosinski** *(pictured)* as first vice president, serving as the head of BankCards & Payments.

### Marinette

Four Stephenson National Bank & Trust employees have transitioned to an innovative role: Interactive Service Associate (ISA). In this new role, the following bankers will provide consumers with exceptional customer service using state-of-the-art technology known as the eTeller: **Sarah Ewaldt**, **Sarah Kirby**, **Mark Adamek**, and **Melissa Wroblewski**. Bank staff is pictured above with their supervisor, SNBT Deposit Operations Officer **Jenni Dolata**.


Faull


Jarosinski


Gober


Thoune


Brueggeman


*Left to right:* Ewaldt, Kirby, Wroblewski, Adamek and Dolata.


Tubbs

## Congratulations

### Wausau

Three Wausau-area bankers were selected as *Wausau Daily Herald* 20 Under 40 honorees. The 20 Under Forty program recognizes the top 20 young professionals in the Wausau region who make a difference in the community and in their industries. Congratulations to Peoples State Bank's **Amber Gober** *(pictured)* and **Janel Thoune** *(pictured)* and Associated Bank's **Andrew Brueggeman** *(pictured)* on this achievement!

## Retirements

### Sun Prairie

After 61 years working devotedly in a number of roles since 1957, **Tom Tubbs** *(pictured)* retired from the Bank of Sun Prairie on Jan. 1, 2018.

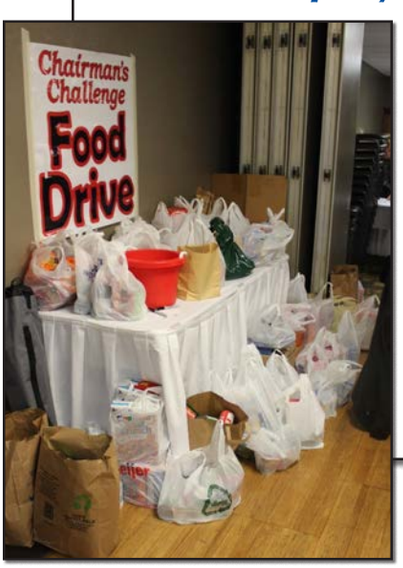
## Announcements

### Berlin

1st National Bank has converted from a national to a state bank charter. As part of this transition, the bank has changed its name to Fortifi Bank.

*(continued on p. 21)*

## SNBT Employees Donate Over $1,700 to Local Non-Profit




The Stephenson National Bank & Trust (SNBT) employees stepped up to donate hundreds of canned goods, and over $1,700 to St. Vincent DePaul. Every Columbus Day, SNBT closes its bank offices for an All Staff Training day. In conjunction with the training day, employees hold the Chairman's Challenge food drive, which **Steve Cagle**, SNBT business banking officer, challenges them to bring one can of food per day. Donations have been accumulating since the middle of September.

Pictured, left: Chairman's Challenge employee food donations.

Pictured, right: SNBT employees loading up the trailer with canned food donations from the Chairman's Challenge.



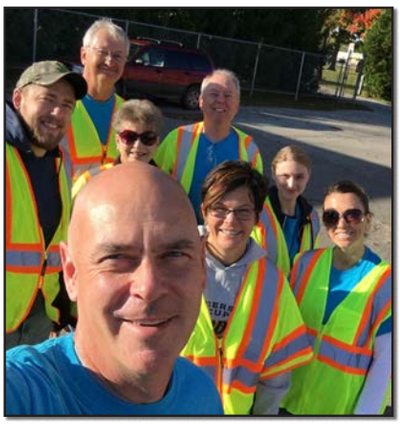
**Have good news?** To submit a notice, please email *bulletinboard@wisbank.com*. Or mail entries to *WBA Bulletin Board*, 4721 South Biltmore Lane, Madison, WI 53718. Send photos as JPEG files. Questions? Contact WBA's **Amber Seitz** at 608/441-1237 or *aseitz@wisbank.com*.

# Bulletin Board

*News about people working in Wisconsin's financial institutions*

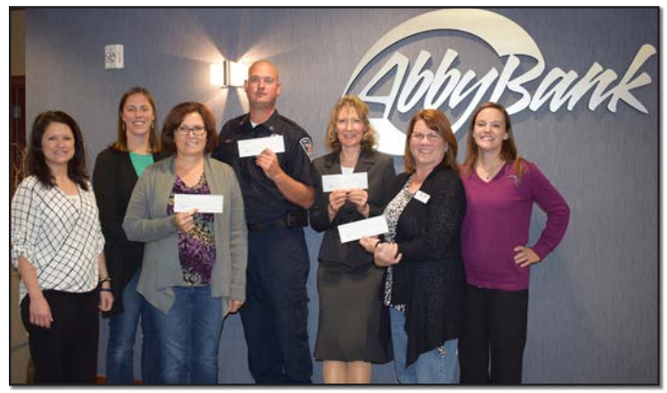
*(continued from p. 20)*

## Premier Community Bank Makes A Difference



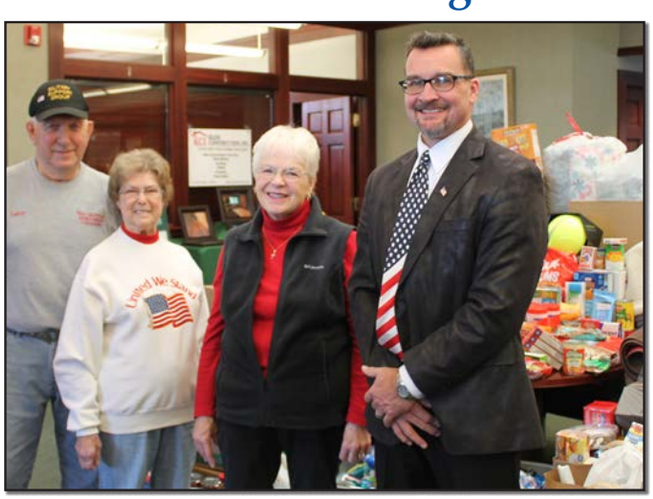
Columbus Day is a traditional bank holiday, but at Premier Community Bank, Columbus Day is an opportunity to give back. On Monday, October 9 the entire Premier staff went M.A.D. in their local communities, volunteering their time to **M**ake **A** **D**ifference. Each of Premier's 11 branches partnered with local charities and service organizations, 32 groups in total. Throughout the day, 98 Premier employees shared their time and talents. The projects covered a wide spectrum from volunteering in schools and nursing homes to cleanup and beautification efforts at local non-profits. Together, Premier employees donated 637 hours on that single day. Pictured: Premier Community Bank President and CEO **Tom Pamperin** and bank staff take a quick break from volunteering for a selfie.

## AbbyBank Donates to Four Organizations




The Abbotsford Story, Inc., the private charitable foundation of AbbyBank, recently presented $6,100 in donations to four organizations in the bank's communities: The Good News Project, Town of Maine Fire Department, North Central Community Action Program, and the a Elementary School. Pictured below *(left to right)*: **Heather Schulz**, AbbyBank; **Lisa Stortecky** and **Sarah Maciaz**, Rothschild Elementary School; **Jeremy Bozinski**, Town of Maine Fire Department; **Diane Sennholz**, North Central Community Action Program; **Toni Schmitt**, Good News Project; and **Natalyn Jannene**, AbbyBank.

## Peoples State Bank Surprises Honor Flight with Donation, Concludes Care Package Drive



In honor of Veterans Day, Peoples State Bank asked representatives from the Never Forgotten Honor Flight to visit the bank to receive a free patriotic hat Peoples was handing out to veterans, and to take a few photos to help support their cause. As a surprise, the bank announced its donation of $1,500, which will help send three more veterans on the Honor Flight. In addition, the bank showed its support with a military care package drive which collected over 7,300 items and $575 in cash donations from customers, employees, and the public. Pictured *(left to right)*: **LeRoy Eades**, **Shirley Eades**, and **Cheryl Zastrow** of the Rhinelander Military Support Group join **Craig Lau** from Peoples State Bank to receive collected donations.

# Tools of the Trade

## *Branch supplies for your front line*

Despite rumors to the contrary, the bank branch is not dead. In fact, the branch experience has become an even more important channel of communication with customers. Bank customers are visiting branches less frequently, but have higher expectations for the experience when they do step inside. To make your customers' branch experience the best one possible, make sure your staff are equipped with the tools and supplies they need in order to best serve your clients and community.

FIPCO, a wholly owned WBA subsidiary, offers a wide variety of competitively priced bank supplies. While it's most well-known products are the WBA Forms and the software suite featuring them, *Compliance Concierge*™, FIPCO also offers a plethora of other essential financial institutions supplies and products.

FIPCO
COMPLIANT. CONSISTENT. CONFIDENT.

*Visit www.fipco.com/teller, call 800.722.3498 or email fipcosales@fipco.com.*

### … Counter Supplies

The next time you need to restock your teller and counter supplies, consider FIPCO! They offer a wide variety of products that are customizable to your institution, including: cash tickets and general ledger tickets, Check 21 products, counter forms, image processing forms, notices, official checks, and teller receipts.

### … Envelopes

FIPCO offers several varieties of envelopes, all customizable with your institution's information and logo. You can further customize your order with different sealing options, inside tints, and ink colors. You can even create your own design, or choose from available stock designs. Currency gift envelopes in a variety of designs and colors are also available to order.

### … Notices

FIPCO's notices provide your customers essential information that is clear, accurate, and efficient. Forms are available for specialized or multipurpose functions. Most importantly, these notices come with FIPCO's famous customer service. Available notices include advice of charge and return items, notice of transfer of funds, notice of wire transfer, notice of deposit correction, notice of stop payment, notice of safety deposit box rental, and more. You can also customize a notice that will be printed to your specifications.

Brick-and-mortar bank branches cannot function without supplies like these for their front-line staff, whether they are personal bankers, tellers, or universal bankers. In addition to the products listed above, FIPCO has a full range of front-line supplies covering everything from cash tickets to coin wrappers and currency straps.

Visit *www.fipco.com/teller* for a full index of FIPCO's front-line products that can save your institution money on the items you use every day.

For free, no-obligation quotes on any of the above items, please contact FIPCO at 800/722-3498 or email *fipcosales@fipco.com*.



# Wisconsin Financial Institutions Directory Updated!

For years, bank employees have depended on FIPCO's Wisconsin Financial Institutions Directory for reliable information about the state's depository institutions. That comprehensive index has been revised into a more streamlined format: the American Financial Directory®. This directory is ad-free, and features the same collection of institution information, without the distraction of advertisements and non-bank information.

The new annual directory has the most current Wisconsin financial institution information, including every depository institution and branch in the state, listed by city. The handy size (4½" x 9") includes almost 300 pages of directory listings. Bank staff will use the directory for essential task such as verifying funds transfer information, finding peer contacts, staying up-to-date on competitors, and looking up office hours.


To order copies visit *www.fipco.com/fdorder* or call 800/722-3498.

Visit *http://fipco.com/fdorder* to place your order (WBA Member price: $110; Non-Member price: $135).

# Ready and Waiting: Rate Risk Profiles are Prepped for More Fed Action

*By Jim Reber*

Have you heard? The Federal Open Market Committee (FOMC) of the Federal Reserve is telling us to get ready for three more hikes in 2018. If they're good at their word, we'll be looking at overnight rates approaching 2 percent by the end of the year. It's been a full decade since we've seen those levels. Most community bankers I've talked to can't wait as they believe their earnings are going to improve.

I think their optimism is based on two separate but correlated beliefs: First, that community banks will continue to stick to their responsible loan underwriting standards, and second, that they'll be able to control their margins, even as money-market rates are on the rise. So far, the FDIC confirms there haven't been any cracks in the credit quality dike among community bankers this time around. So maybe it's time to check out the interest rate risk profile of a typical community bank to see how that's shaping up.

## Warnings Sounded

Let's review the regulators' take on the subject. The counter-argument to bankers' enthusiasm about margin improvement comes from your friends at the FDIC. The June 30, 2017 Quarterly Banking Profile mentioned that "some banks have responded […] by 'reaching for yield' through higher-risk and longer-term assets." This was not really news as similar comments had been made in recent quarterly releases.

In a separate Supervisory Insight from last summer, the FDIC mentioned increased loan demand, shrinking supplies of liquid assets and increased use of wholesale funding. The report stated rather clearly that "liquidity risk is generally increasing for [community banks] as a group." It recommended that contingency funding plans be reviewed and tested and that cash flow projections for the entire balance sheet be challenged.

## Current Posture

From the view of ICBA Securities and its exclusive broker, Vining Sparks, you've already addressed these issues. Vining Sparks is the interest-rate risk modeler for about 300 community banks, so it has an eyewitness view of the rate risk exposure (or lack thereof) for a large segment of the industry. And I'm pleased to report that, for at least these banks, they're built for the 2018 forecast.

Recent additions to the risk management lexicon include Earnings at Risk (EAR), Economic Value of Equity (EVE), and Capital at Risk (CAR). As we've come to learn, your examiners will expect you to know what your community bank's posture is for these and other risk measurements. It's also helpful to recall that the standard range of interest rate shocks that you're expected to calculate is from "down 300" to "up 400" basis points.

Back to our sample of 300 community banks. As of Sept. 30, 2017, this group is estimating that it'll have a positive EAR in any rising-rate scenario of a parallel nature. It also is projecting to have a larger positive EAR than the previous quarter and year. This is a good thing if 1) it's accurate, and 2) the FOMC does what it says it will. The exact same condition exists for this group's EVE; in any rising-rate forecast, economic value of equity will increase.

What's even more encouraging is that most banks had negative projections for these metrics in rising-rate scenarios just two years ago. This means that community bankers have been diligent and disciplined about addressing their interest rate risk. And the ultimate backstop to risk, a bank's capital, has similarly been fortified. The average community bank's CAR shows a decline of only about 16 percent in a severe (up 400 basis point) rate shock. This is well under the regulators' general guidelines about capital exposure to interest rate changes.

## Observations and Recommendations

It is true that the liquidity measurements for community banks are showing some ebb in the last two years. Your examiners have commented on it, and there is plenty of evidence to back it up. However, it's not like the well has run dry. For example, while wholesale deposits are trending upwards, the typical community bank still has borrowing capacity of almost 40 percent of assets. It looks like contingency funding is in place.

If you're unsure how much liquidity your balance sheet will produce over the next 24 months, here are some suggestions:

» Have a shocked cash flow ladder compiled by a third party, like your favorite broker.

» Take a good look at recent prepayment speeds on your mortgage securities.

» Consider adding securities that will produce near-term cash flow, like highly callable agencies, premium mortgages, or well-structured collateralized mortgage obligations.

» Get indications of market prices on government-guaranteed loans or other liquid portions of your loan portfolio for possible future sales.

Your community bank is probably in relatively good shape for the interest rate environment. The industry has had plenty of time to prepare and the Fed these days is very transparent. Also, it's never been easier to measure your exposure to a wide range of interest rate shocks. So remain vigilant, and here's to a prosperous 2018.

*Reber is president and CEO of ICBA Securities and can be reached at 800/422-6442 or jreber@icbasecurities.com. ICBA Services Network is a WBA Gold Associate Member.*

## DISRUPTION

*(continued from p. 1)*

### SETTING NEW STANDARDS

Perhaps the biggest challenge disruption presents to the banking industry is that banks are no longer only competing against other financial institutions. Instead, non-bank retailers and fintech companies are transforming their customers' expectations, particularly in mobile banking. "The digital products are the most discussed disruptors in the banking industry," said **Kyle Manny**, CPA, CGMA, senior manager, financial services at Plante Moran. "Consumers are demanding well-developed mobile banking applications as a qualification for who they're going to bank with." Fintech companies have been quick to develop mobile applications to meet that demand, but while they are attractive to consumers, haven't been able to achieve scale on their own in many cases. "Fintech companies are reimagining how banking should work in a mobile world," said **David DeFazio**, partner at StrategyCorps. "When you pull back the curtain, among the most successful are the ones who have partnered with banks." DeFazio will demonstrate some of that during his presentation at the upcoming WBA Bank Executives Conference.

Even more disruptive than the fintech companies that tend to attract the most attention from the industry, giant non-bank retailers are the true impetus behind rising standards for digital services. "Where we haven't paid enough attention is to well-funded players from other industries, such as Amazon, Walmart, and Facebook," said Nicols. "Financial services used to exist in a unique middle zone where all competitors looked the same, and we only competed with one another. Every single line on the balance sheet now has one or more non-bank competitors." Again, this is particularly noticeable within consumers' expectations for the mobile experience. "Companies like Facebook, Apple, Amazon, and Starbucks are changing the way that customers expect things to work in the mobile world," DeFazio explained. "Looking outside of our industry to see how these non-bank retailers are setting new standards for mobile payments is very important."

Disintermediation—another buzzword—is the ultimate side-effect of this non-bank disruption. "Banks have been a trusted third party in the middle of a value network for a long time, and if we don't need that third party anymore, for example because Amazon now offers its own financing, that's true disintermediation," Nicols explained. In the days before mobile wallets, PayPal, Venmo, and other digital payments disruptors, banks could count on the fact that with every purchase, their customers would reach into their wallets and pull out a debit or credit card (or checkbook) with the bank's name and logo on it. "We were always there," said DeFazio. "Today, that is disappearing. Sometimes consumers even forget which credit cards are attached to their mobile wallets. These companies that are outside of banking are stealing the experience from banks."

In today's highly digital, interconnected world, consumers also cause disruption directly. "Customers these days are far more researched than they've ever been before," Manny explained. "Even within small communities, they're walking into a business having already done research. Many have made their purchase decision before they walk in." That includes for financial products and services, such as mortgage loans, which reduces the banking industry's monopoly on customer relationships. For example, rather than automatically going with the bank and product recommended by their realtor, a potential customer may shop around and get a lower rate with Rocket Mortgage from QuickenLoans.

Finally, today's regulatory environment is also capable of disrupting bank operations. "People don't think of the regulatory environment as being a disruptor," said Manny, explaining that some banks have chosen to exit small lines of business because of the perception of the regulatory compliance risks they represent. "People who specialize in compliance and consumer protection are very difficult to attract or retain," he said. "Companies may need to invest significant resources in employees or consultants to ensure they remain compliant, and it might not be cost-beneficial to do it."

### KEEPING UP

So, what can Wisconsin banks do to keep up with today's rapid pace of change and adapt to disruption? The first thing is to shift your mindset; see disruption as an opportunity, rather than a threat. "The natural reaction is to see disruption as a problem," said Manny. However, he pointed out that banks have more data on their customers' purchase habits than any vendor out there, enabling them to hyper-personalize opportunities and options for their customers.

*(continued on p. 25)*

# Connect with Your Peers

## *Industry networks open membership for 2018*

*By Daryll J. Lund*

**Association Update**

Daryll J. Lund

In July 2017, WBA became the new home for the CEOnly and CFOnly Networks. These informal networks are exclusively for WBA member bank CEOs and CFOs, respectively, and offer a space for unparalleled peer-to-peer networking and idea-sharing. Over the past six months, the association has built upon the solid foundation established by **Terry Burrington** during the networks' previous 13 years of existence.

WBA has continued the network services members have come to expect, including question-and-answer emails and networking events. With the Q&A emails, members are able to submit a question for their peers to WBA staff, who then distribute the question anonymously to the rest of the network. After all answers have been compiled and any identifying information removed, staff distributes a follow-up email to the entire network.

Network members are also invited to attend three complimentary networking events each year. The most recent was held in Madison on October 13 and included the traditional welcome reception—held the evening prior—as well as a special guest speaker from the law firm Reinhart Boerner Van Deuren s.c. The speaker gave attendees a summary of the banking landscape, charter conversions, regulatory updates, staffing issues, and shareholder management. Of course, the capstone of the event was the breakout networking sessions where attendees engaged in peer-to-peer discussions and idea-sharing.

CEOnly™ | CFOnly™

» The 2018 meeting dates for the CEOnly|CEOnly Network have been set: March 9 | Wausau · June 15 | Wisconsin Dells · October 19 | Madison

**Interested in joining one of the networks?** Membership in the CEOnly and CFOnly Networks is separate from your WBA membership, and is open to CEOs and CFOs of WBA member banks. To receive a membership invoice for 2018, please email me at *dlund@wisbank.com*.

*Lund is WBA executive vice president – chief of staff*

## DISRUPTION

*(continued from p. 24)*

"Even if the customer gets a loan through another entity, typically the bank can see those payment transactions," Manny explained. "If banks can find ways to better target new products and services to their customers, they can take away some of the market share that's going to nontraditional competitors whereby they can ensure consumers understand their value proposition that is likely very different."

Creating and communicating value within the customer experience is key. "Be the keeper of the experience," DeFazio advised. "Try to understand and exceed the expectations of your customers." Bank staff also need to know how to communicate that value to current and potential customers. "You have customers who are more well-versed in the competitive landscape than your front-line employees," said Manny. "That can be a challenge if your front-line employees don't know how to effectively differentiate your products to your customers. Make sure you understand your service model so you can empower your front-line employees to be able to react to those issues."

It is also important for bank management to understand that, for most community institutions, they will not be able to keep up on their own. "Be willing to partner," Nicols advised. "Banks are used to building things in-house and testing them for years before releasing them. That's not going to be sustainable." For many institutions, the solution will be to rely on the bank's core provider or current technology vendor. "Form strong relationships with your core providers and other vendors," said DeFazio. "In some cases, you'll need to challenge your vendors to close the gap." Some banks may also find value in partnering with a non-bank company to offer digital products/services. "Identify partners and consider joint ventures or other arrangements where you can dip your toe in the water to provide products or services in new ways," Manny suggested. "I would encourage banks to listen and be open to those opportunities as they arise."

Finally, the key to successful adaptation in a disruptive world is for bank leaders to become more aware of the new reality. "Our biggest challenge is that bankers understand there are disruptions happening around us, but they're not studying them," said DeFazio. "I challenge bank leaders to be more aware." Attending this year's Bank Executives Conference is one way for bank management to expand their knowledge of industry disruptors. Another is to experiment with various mobile applications and products as a consumer. "Community bank leaders need a better understanding of the competitive landscape outside of their communities," Manny advised. "Know who your competitors are."

The one thing banks must *not* do if they are to survive: nothing. "The default is to keep doing what you've always done, since you're good at it," said Nicols. "But, your plan only works well until it doesn't. Pay attention to what's relevant to *your* customers so you can continue to deliver value. The way your customers perceive value is the most important thing that's changing."

*Seitz is WBA operations manager – senior writer.*

*Plante Moran is a WBA Silver Associate Member.*

# WBA Perspective *Industry briefings for Wisconsin bankers*

There's certainly no shortage of information channels in this day and age. You can find out news from around the globe in newspapers, online and even on your smartphone. If you don't have time to sift through hundreds of articles and news bytes, here's what you need to know about what's going on in the banking industry this month:

Rose Oswald Poels is WBA president and CEO
ropoels@wisbank.com | 608/441-1200
Twitter: @RoseOswaldPoels

## *Advocacy*

### U.S. Senate Candidate Nicholson Meets with WBA


On Monday, November 20, Republican candidate for U.S. Senate **Kevin Nicholson** met with WBA leadership in Madison. Nicholson laid out his plan for the campaign, what he would like to accomplish as a U.S. Senator, and how he differs from incumbent Senator **Tammy Baldwin** (D). If Nicholson will be the next Senator from Wisconsin, he will first have to get through the GOP primary. The only other declared candidate at the time of this writing is State Senator **Leah Vukmir** (R-Brookfield). Should either candidate beat Senator Baldwin, it will be the first time Wisconsin has had two Republican U.S. Senators since 1957.

Pictured *(left to right)*: WBA Executive Vice President and Chief of Staff **Daryll Lund**, Nicholson, WBA President and CEO **Rose Oswald Poels**, and WBA Director – Government Relations **Jon Turke**.

## *Regulatory News*

### Inflation Equilibrium: Chicago Fed Holds Community Bankers Symposium

The speakers at the 12th annual Chicago Fed Community Bankers Symposium addressed inflation equilibrium, consumer compliance, CECL, and other timely issues before an audience of over 150 bankers on November 17. WBA's **Mike Semmann**, multiple Wisconsin bankers, and DFI Banking Division Administrator **Cheryll Olson-Collins** attended the one-day seminar focused on regulatory process and a few practical applications for bankers. One key takeaway for Wisconsin's community bankers was the discussion on CECL compliance. Assistant Chief Accountant of the Federal Reserve System Board of Governors **Lara Lylozian** indicated that, in many ways, community banks already manage CECL requirements as a part of their normal business operations. Community bankers were very open with their questions and expressed concern about the treatment of brokered or pooled deposits in the current interest rate environment and asked regulators for a more thoughtful approach in dealing with them in the course of the examination process.

## *Ag Banking*

### Wisconsin Hosts ABA National Ag Conference

Wisconsin's presence was definitely felt as 77 Wisconsin bankers from 34 banks attended the ABA National Agricultural Banking Conference held in Milwaukee in mid-November. WBA's **Daryll Lund** helped kick off the event by welcoming the 700+ attendees from across the country and Canada. Wisconsin was selected for our role in American agriculture and the involvement of Wisconsin agricultural bankers. WBA was a partner in this year's conference as the hosting state banking association; WBA's **Lori Kalscheuer** and **Dave Coggins**, Investors Community Bank, Manitowoc, both served on the conference planning committee. Additional coverage of the national event hosted in Milwaukee is available on WBA's website here: *www.wisbank.com/articles/2017/11/wisconsin-hosts-aba-national-ag-conference*.

Pictured *(left to right)*: **Mike Semmann**, WBA; Lund; **Rob Nichols**, ABA; and **Ken Burgess**, FirstCapital Bank of Texas and current ABA Chair.

## *Advocacy*

### WBA Tax Reform Message Delivered to Wisconsin House Delegation

WBA recently sent a message to each of the members of the Wisconsin House Delegation regarding their tax reform proposal (H.R. 1 Tax Cuts and Job Act). The content highlighted the positives and negatives of the proposal. The letter's full text and other tax reform resources are available on the WBA website at *www.wisbank.com/TaxReform*. A similar message was sent to the Senate after WBA fully reviewed their version of the tax reform proposal. Currently, we know the Senate somewhat changed the S-corp from the House. It offers a 17.4 percent deduction for business income from "pass-through" entities, including Subchapter S banks-limited to 50 percent of the individual taxpayer's W-2 wages-a different structure for pass-through taxation than in the House bill. The Senate version also starts the corporate tax break in 2019 rather than 2018.

# Bankers Marketplace

## HELP WANTED

**Senior VP/Senior Lender**

A well-established community bank in the greater Wausau area is seeking an experienced individual to fill the role of Senior VP/Senior Lender. Member of the senior leadership team responsible for monitoring the quality and integrity of the loan portfolio, maintaining profitability of loan investments made, providing recommendations on sound lending practices compliant with regulatory directives, the bank's lending philosophy and loan policies. Oversees loan committee and provides guidance and supervision to lending staff. Proven performer in developing and building new business relationships. Maintains a community presence by becoming active in local service groups, networking groups, Boards or business groups as desired. Candidates will have a Bachelor's degree in the field of Business. Ten plus years of commercial lending experience or related lending activity; preferably in a bank environment. Prior management experience, with and/or exposure to credit underwriting, loan review, pipeline management and loan operation process. High level of interpersonal, organizational and communications skills required. Must have ability to understand and analyze financial statements and tax returns. This is a desirable position for the banking professional looking to establish long term relationships within a dynamic marketplace. Please submit resume, cover letter and salary requirements in confidence to: *bankersmarketplace@wisbank.com*, Subject: Blind Box H1120 or mail to 4721 S. Biltmore Lane, Attn: Blind Box H1120, Madison, WI 53718.

***Want to See More Ads?***
*Visit www.wisbank.com/classifieds to view a full listing of job postings or for more information on placing or responding to an ad.*

**Administrative Team Assistant**

FIPCO is seeking an Administrative Team Assistant. This person is responsible for providing a wide variety of administrative support for individuals and departments to ensure efficient operation of the office. This person is also responsible for providing outstanding customer focused support (internal and external) and to see that duties are completed accurately, delivered with high quality and in a timely manner. Qualifications: This person is required to have: Be a positive, creative thinker with a passionate attitude; Solid communication and "people" skills, proficiency in developing written communications; Strong organizational and time management skills; Ability to work in an entrepreneurial environment – self-starter, wearing multiple hats; Demonstrate strong work ethic and willingness to work as needed to hit deadlines and get the job done; Keen eye for details and execution oriented personality; Determination and drive to work toward targets/goals; Be coachable and competitive; Ability to work well independently and as part of a team. In addition, the ideal candidate would have: Associate degree or related experience; Experience with Microsoft Office Suite, Traverse, Basecamp and/or Hubspot; Knowledge of banking operations, compliance and/or software. Interested persons should submit a current resume and dated letter explaining his or her qualifications to Vice President of Finance and Administration (*applications@wisbank.com*). A copy of the job description is available upon request.

**Technology and Integration Support Specialist**

FIPCO is seeking a Technology and Integration Support Specialist. This person is responsible for providing outstanding customer support (internal and external) for FIPCO software, interfaces, hardware, and hosted environment. The person will also be involved with software and interface installations, release development and deployment and related troubleshooting. After hour and on-call work is required. Qualifications: This person is required to have: Experience with Microsoft Server 2008 and 2012; Be a positive, creative thinker with a passionate attitude; Solid communication and "people" skills, proficient with helping customers achieve their goals through telephone, email and web support channels; Strong organizational and time management skills; Ability to work in an entrepreneurial environment – self-starter, wearing multiple hats; Demonstrate strong work ethic and willingness to work as needed to hit deadlines and get the job done; Keen eye for details and execution oriented personality; Determination and drive to work toward targets/goals; Be coachable and competitive; Ability to work well independently and as part of a team. In addition, the ideal candidate would have: Associate degree or related experience; Experience with Microsoft, Java and Oracle; Familiarity with Axosoft, Basecamp and/or Hubspot; Knowledge of banking operations, compliance and/or software. Interested persons should submit a current resume and dated letter explaining his or her qualifications to Vice President of Finance and Administration (*applications@wisbank.com*). A copy of the job description is available upon request.

## Message from the Chair

*(continued from p. 2)*

in mid-November. The proposal includes good mortgage reforms, charter flexibility for federal savings associations, broader qualifications for the 18-month exam cycle, and much-needed relief on stress testing.

### Foxconn

I'm also predicting further economic development in Wisconsin, particularly in the southeast corner of the state with the arrival of Foxconn. While the state is investing heavily in incentives in order to bring the manufacturing company to our state, the benefits could have a game-changing impact. For example, in addition to the 13,000 direct Foxconn jobs, it is projected that 22,000 indirect jobs will be needed to support the manufacturer. Experts are projecting a $7 billion annual economic impact state-wide: definitely something for our industry to get excited about.

None of these positive predictions will come to fruition without the dedicated advocacy efforts of Wisconsin bankers, and that includes voting in the upcoming mid-term elections. Another way you can have an impact is by attending the WBA Capitol Day on **January 16** in Madison. If you haven't registered yet for this *free* event, there's still time! Visit *www.wisbank.com/CapitolDay* and join me in supporting our industry.

*Werner is president and CEO of Park Bank, Milwaukee and current WBA Chair, Chair-Elect.*


## WISCONSIN BANKER

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**Eric Skrum**, Editor
(608) 441-1216
*eskrum@wisbank.com*

**Advertising**:
*sales@wisbank.com*

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