WISCONSIN BANKER

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Silver Linings Playbook: Compliance Edition

Strategies for turning compliance into a competitive advantage

By Amber Seitz

Compliance is a level playing field in the banking industry. While recently passed regulatory reforms (such as those included in S. 2155) will allow for a more tailored approach once implemented, most Wisconsin banks must play by the same rules. "When it comes to compliance, I'm not competing against another bank," said **Kristen Gagliano**, vice president – BSA and compliance manager at North Shore Bank, Brookfield. "We all have essentially the same set of rules to follow and do our best to comply with those rules." So, how can banks transform their compliance processes into a competitive advantage? It comes down to finding the silver lining, the unique knowledge and experience bankers can use to deepen customer relationships, build and sustain a culture of compliance, and participate in constructive conversations with regulators.

Grow Deeper Relationships

In today's long-term low-rate environment, customer loyalty (and their deposits) is an essential component for bank success. Compliance can help achieve that loyalty by providing added value to retail and commercial clients.

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Constructing a System for CRE Risk Management

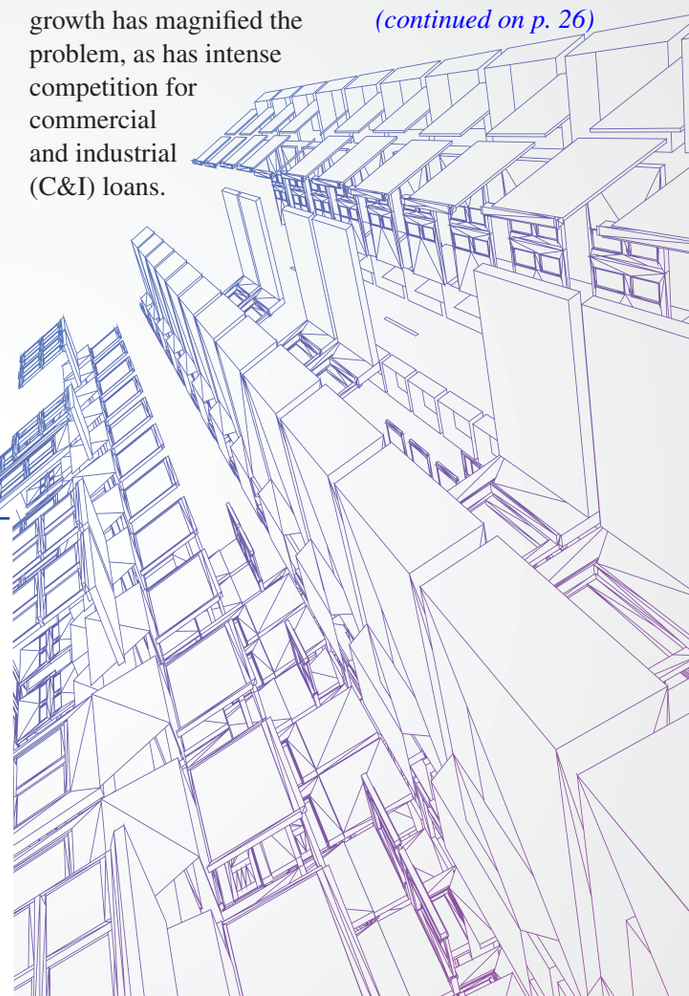
Five tactics to mitigate risk as concentrations rise

By Amber Seitz

Bank regulators frequently shift the focus of their examinations to address specific areas of concern, as they should. An appropriate level of scrutiny to high-risk practices can help prevent industry-wide risk levels from becoming unmanageable, as they did in the mortgage lending sector in the early aughts. Today's "hot topic" is commercial real estate (CRE) lending. Fueled by market forces, many banks—in Wisconsin and nationwide—are holding more of these loans and in higher dollar amounts than in the past.

Generally, this increase in CRE concentrations is being driven by "expectations of loan growth in a very competitive environment," said **Nicholas Hahn**, director of risk advisory services at RSM US LLP. "Many banks are more comfortable with the underlying collateral in CRE loans, so they've become very attractive." Tying compensation to loan growth has magnified the problem, as has intense competition for commercial and industrial (C&I) loans.

(continued on p. 26)



Wisconsin Bankers Association
4721 South Biltmore Lane
Madison, WI 53718

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Looking Backward and Forward

By David P. Werner

Message from the Chair

David P. Werner

This past year was an eventful one! Continuing the trend of change from the past few years, 2018 altered the landscape in politics, the economy, and compliance.

In the advocacy world, Speaker of the House **Paul Ryan** surprised many in April by announcing that he would not seek re-election. With that decision, Wisconsin lost a powerful advocate in Washington. More recently, the Nov. 6 midterm election results changed the political landscape in several major ways. In Wisconsin, new governor-elect **Tony Evers** has already begun appointing new leaders to key cabinet positions in Madison; it remains to be seen how he will work with the Republican-controlled legislature, since the GOP maintains solid control of both state houses. In Washington, Republicans retained control of the Senate and Democrats succeeded in winning the House. In these new circumstances, bipartisanship is more important than ever to our industry's advocacy efforts.

Economically, Wisconsin continued its trend of slow, steady growth in 2018. One highlight was the July 26 joint announcement of the Foxconn deal from President **Donald Trump** and then-Governor **Scott Walker**. While Wisconsin will pay an estimated $3 billion in incentives to the Chinese manufacturer, the new facility in southeastern Wisconsin has the potential to create 13,000 direct jobs and 22,000 indirect jobs. Experts are projecting a $7 billion annual economic impact state-wide; definitely something for our industry to get excited about.

Finally, on the legislative side, our industry achieved two major goals: tax reform and moving the needle on regulatory relief. Granted, technically the Tax Cut and Jobs Act was signed into law by President Trump on Dec. 22, 2017. However, since the IRS is still in the process of implementing many of the changes, I count it as part of 2018. Our industry also successfully advocated for regulatory relief. The Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155) became law on May 24. While the full impact of many of the law's reforms won't become clear until they are fully implemented, most banks in Wisconsin will feel at least some level of relief.

Looking ahead to 2019, WBA's annual Wisconsin Economic Forecast Luncheon is right around the corner, and it is one of the best ways to prepare yourself and your business clients for the coming year. For the first time, WBA is holding the luncheon in two locations—Eau Claire and Madison—and both feature nationally recognized economists. I look forward to hearing their perspectives on 2019! You can learn more and register at *www.wisbank.com/Economic-Forecast-Luncheon*.

Werner is president and CEO of Park Bank, Milwaukee and the 2018-2019 WBA Chair.

New Faces Coming to the State Legislature in January

By Jon Turke

Advocacy Update

Jon Turke

» See an interactive infographic of the midterm election results at: *www.banconomics.com/articles/2018-wi-election-results-at-a-glance-wi-bankers-association.*

Every election provides opportunities for new individuals to represent their neighbors in Madison. While incumbents always have a distinct advantage, retirements and surprises are a regular occurrence. The 2018 elections were no different as there will be three new State Senators and 13 new State Representatives. Among the incumbents who lost, all three were Democrats: State Senator **Caleb Frostman** lost re-election after winning a special election in June and Reps. **Josh Zepnick** and **Fred Kessler** lost primaries in August. The three new State Senators are all Republicans who were State Representatives before: **Kathy Bernier**, **Andre Jacque**, and **Dale Kooyenga**.

Nationally, at least 21 House Republicans, one Senate Republican, and three Senate Democrats lost in November. Incumbents have been re-elected easily in modern elections. The lowest incumbency re-election rate for House Members in the last 50 years came in 2010 when only 85 percent of incumbents were sent back to office. There are many reasons for this high re-election rate. One is that during redistricting maps are drawn to benefit incumbents in both parties and therefore they will have a partisan lock on the district until retirement. Some others include wide name recognition and they possess a large advantage in campaign funds.

Turke is WBA director – government relations.

★ Introducing… Four New Wisconsin State Representatives ★

Kalan Haywood (D-Milwaukee)

Haywood

Haywood holds the distinction of being the youngest lawmaker in Wisconsin at only 19 years old. Haywood prevailed in a five-way primary election for the 16th Assembly District in August and had no Republican challenger. His father is a prominent real estate developer in Milwaukee. Wisconsin could hold the distinction of having the youngest and oldest lawmakers; Sen. **Fred Risser** (D-Madison) is 91.

Barbara Dittrich (R-Oconomowoc)

Dittrich

As a lifetime resident of Southeastern Wisconsin, Dittrich succeeds retiring **Joel Kleefisch** in the 38th Assembly District. After working in the investment industry for 13 years, Dittrich founded a charitable non-profit serving the parents of children with disabilities and chronic illnesses. She was the organization's executive director for 15 years before becoming director of education following a non-profit merger.

Tony Kurtz (R-Wonewoc)

Kurtz

Kurtz replaces **Ed Brooks** in the 50th Assembly District after defeating credit union employee **Art Shrader** (D). Kurtz served as a helicopter pilot in the U.S. Army for 20 years before making his home in Western Wisconsin. He first ran for office in 2014 against **Ron Kind** (D). Kurtz is an organic farmer and lives in Wonewoc. He worked for Sen. **Ron Johnson** in the past and serves on Wisconsin's Organic Advisory Board.

Shelia Stubbs (D-Madison)

Stubbs

Stubbs will be the first African-American to represent the City of Madison in the State Assembly's 77th District. For the last 12 years she has served on the Dane County Board. A former probation and parole officer, Stubbs earned undergraduate degrees from Tougaloo College in Mississippi and Mount Senario College in Ladysmith and has a MS from Cardinal Stritch University. In addition, Stubbs has served on a number of local committees and boards.

WBA Comments on CRA ANPR

Summary of a recent comment letter below

In a recent comment letter, WBA wrote the Office of the Comptroller of the Currency (OCC) to comment on its Advanced Notice of Proposed Rulemaking (ANPR) on reforming the Community Reinvestment Act regulatory framework.

The Community Reinvestment Act of 1977 (CRA) was enacted to encourage financial institutions to help meet the credit needs of the communities that they serve. Federal regulators assess the record of a bank in meeting the credit needs of its entire community, pursuant to regulation. OCC issued the ANPR to solicit ideas for building a new framework to transform or modernize its regulations.

WBA requested revisions to the CRA framework that would provide clarity regarding activities that receive positive CRA consideration, thresholds for identification of community development loans, counting credit for the lending test, reporting requirements, and the assessment area concept. These comments were provided, with examples, pursuant to input from our members.

In addition to requests for specific revisions, WBA urged OCC to work with FDIC and FRB in developing a consistent proposed rule.

The WBA Legal Department advocates for the industry by writing comment letters to federal and state regulators on proposals affecting the industry and by filing friend-of-the-court briefs at the request of WBA members and per approval by the WBA Board of Directors.

For copies of this or other WBA comment letters, please contact the WBA Legal Department at 608-441-1200 or visit www.wisbank.com/CommentLetters.

Third-Party Accounts Covered by Beneficial Ownership Requirements

IOLTA, IBRETA, and Guardianship Accounts could be considered intermediated accounts

Q Could Third-Party Accounts Such as IOLTA, IBRETA, and Guardianship Accounts be Covered by Beneficial Ownership Requirements?

A Answer: Yes. A discussion in the preamble to the Customer Due Diligence Rule provides that the certification as to beneficial ownership must be completed for intermediated accounts. It is possible that accounts such as IOLTA, IBRETA, and Guardianship Accounts could be considered intermediated accounts.

Despite the discussion in the preamble, the rule itself does not specify coverage over these accounts. As such, there are some conflicting opinions on the matter. Ultimately, banks will need to make a decision based upon their own interpretation of the rule.

Compliance Q&A

Scott Birrenkott

The beneficial ownership rules apply when a legal entity customer opens a new account. The rule discusses the concept of "intermediates" which can be found on page 29415 of the rule below. There, the discussion provides that "... a financial institution shall treat an intermediary (and not the intermediary's customers) as its customer, the financial institution should treat the intermediary as its customer for purposes of this final rule." For example, this could be interpreted to provide that a law firm, real estate firm, or corporate guardian should be treated as a bank's customer when opening an IOLTA, IBRETA, or guardianship account. If that results in a legal entity customer opening a new account, the final rule will apply.

Visit *www.wisbank.com* to learn more about this topic and other compliance-related issues.

The final rule can be found here: *www.gpo.gov/fdsys/pkg/FR-2016-05-11/pdf/2016-10567.pdf*

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.

Request Your Free Outreach Tool Today!

Reading Raises Interest Kits now available

READING RAISES INTEREST

> Order your Reading Raises Interest Kit by March 2 at: *www.wisbank.com/ReadingRaisesInterestKits.*

> Contact **Amber Seitz** at 608-441-1237 or *aseitz@wisbank.com* for more information.

Every year, hundreds of Wisconsin bankers use a Wisconsin Bankers Foundation (WBF) Reading Raises Interest Kit to help them teach the youngest members of their community about the importance of saving and spending wisely. During the month of April, in conjunction with WBA's Power of Community Week and national Teach Children to Save Day on April 12, help promote financial literacy by conducting a classroom presentation or visiting a daycare or youth group.

The WBF offers a *free** Reading Raises Interest Kit to every member bank branch. The kit features an age-appropriate book and includes a lesson plan and suggested classroom activities, as well as several other resources to help you create an engaging educational presentation. This year's featured book will be announced soon, so watch *www.wisbank.com/ReadingRaisesInterestKits* for more information.

All kit orders must be received by **March 1, 2019** 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 608-441-1237, *aseitz@wisbank.com*.

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

Help Grow Our Industry – Scholarship Applications Now Available

Wisconsin Bankers FOUNDATION

The Wisconsin Bankers Foundation is pleased to announce a new annual scholarship program for high school seniors. This program is for students who will be furthering their education at a Wisconsin state accredited college, university or state-operated technical school. Applications will only be accepted from student bank employees and students with a parent or guardian employed at an in-state location of a Wisconsin Bankers Association member bank.

Five awards of $1,000 each will be given to qualified applicants in the following categories: academic achievement; financial need; to a student who has a career goal in the financial services industry; to a student who will attend a technical college to obtain an associate degree; and a Selection Committee Award.

As a WBA member banker, we ask you to promote this opportunity to employees at all of your bank's branches.

Application materials can be downloaded from *www.WisBankFoundation.org* OR *www.wisbank.com/FoundationScholarships*. Applications must be postmarked no later than **Wednesday, March 27, 2019**.

If you have any questions regarding the scholarship application, please contact WBF's **Amber Seitz** for more information at 608-441-1237 or *aseitz@wisbank.com*.

Join the Evolution

Industry leaders gather in Milwaukee to build the future of banking

Join the largest gathering of Wisconsin bank executives for a celebration of our industry, held at the historic Pfister Hotel in Milwaukee Feb. 4-6, 2019. The annual Bank Executives Conference will feature informative speakers, invaluable networking opportunities, and entertainment. The conference will focus on tools, techniques, and strategies bank leadership can use to help evolve the industry in response to today's many economic and technological changes.

This year's conference features a new format, redesigned to maximize your ROI. New this year, the conference will kick off the afternoon of Monday, February 4 with networking peer group meetings for c-suite bankers (CEO, CFO, CIO/CTO, CRO, COO), followed by a reception and opportunities for dinner with WBA Associate Members.

Register online at www.wisbank.com/BEC.

Tuesday's general sessions will provide additional insight into the forces driving change in the industry: today's challenging operating environment (particularly with regard to interest rate risk), "big data," and fintech. First, attendees will hear from **Joe Calloway**, executive in residence at Belmont University's Center for Entrepreneurship. Calloway's presentation, *Magnetic: The Art of Attracting Business*, is about how to build your business based on a customer-centric strategy. That strategy uses the power of simplicity, focus, and customer experience to attract customers, keep those customers for life, and create a never-ending stream of new customers. Calloway will demonstrate how to get everyone in your organization focused on creating consistent customer experiences that generate customer satisfaction and grow your business. This session will provide simple, powerful, and actionable strategies that you can implement immediately, including ideas that fire people up and motivate them to take immediate action to improve performance and results with customers.

The next keynote, *Balance Sheet Strategy: Understanding Your Exposure and Knowing Your Options*, will be led by **Scott Hildenbrand**, principal and chief balance

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2019 WBA Bank Executives Conference

(continued from p. 8)

sheet strategist at Sandler O'Neill + Partners, L.P.
In a challenging operating environment, rather than trying to accomplish the impossible—predicting what rates will do—Hildenbrand will show how bank management teams need to identify the interest rate scenarios that their specific institution is most vulnerable to. With these exposures in mind, he'll discuss different considerations and strategies available to enhance earnings and effectively manage interest rate risk. You'll take away an understanding of the impact of the current market and various projections on your balance sheet (including interest rates, capital, cost of funds, accounting, and regulatory topics) and learn about different strategies your bank can utilize to address these issues and your institution's unique exposure, including efficient funding sources, balance sheet restructurings, and derivatives.

Next, **Sean Payant**, senior executive vice president of consulting services at Haberfeld Associates, will lead a session designed for growth: *Driving Results With Your Bank's Data*. As the race for core customers, core deposits, and expanded customer relationships intensifies, it is imperative to have your bank positioned for growth. In the age of analytics and informed decision-making, banks have a largely untapped source of internal data. We know where our current customers live and operate their businesses, and we have access to internal product and service utilization. Given this wealth of information, why aren't more organizations utilizing it to improve results? During this session, Payant will explore specific and actionable strategies to use internal data to grow core customers, increase core deposits, and deepen customer relationships.

Don't miss the essential information in these and other sessions at the largest gathering of banking industry leaders in Wisconsin! Visit *www.wisbank.com/BEC* today to reserve your spot at the conference.

SESSIONS INCLUDE:

- Partnering with FinTech
- Driving Results with Your Bank's Data
- Magnetic: The Art of Attracting Business
- Maximizing Opportunities While Removing Potholes
- Looking Backwards to See the Future
- Building Your Brand, Telling Your Story, Protecting Your House
- The Economic Update

SPECIAL GUESTS:

★ JELENA McWILLIAMS, Chair, FDIC ★
★ ED HENRY, Fox News ★
★ REBECA ROMERO RAINEY, President & CEO, ICBA ★

Bank Executives Conference

FEBRUARY 4-6

The Pfister Hotel
424 East Wisconsin Avenue
Milwaukee, WI

HMDA/CRA Reporting Quickly Approaching!

Integrations for precision, efficiency

To help promote efficiency and precision, we offer two interfaces that can transfer loan data from *Compliance Concierge*™ Loans and/or Mortgage directly to HMDA and/or CRA reporting solutions.

As powerful tools for maximizing precision, interfaces work behind-the-scenes to provide direct and timely access to correct information, while streamlining productivity and reducing the potential for compliance errors.

*Contact **Sally Michaels** at smichaels@fipco.com or call 800-722-3498, ext. 258 for more information or to schedule a free demonstration.*

With HMDA/CRA reporting just around the corner, it's time to take a closer look at FIPCO's integration options from *Compliance Concierge*™ to QuestSoft Compliance Relief and HMDA Wiz. Both interface products provide similar functionality, including:

» Automated geocoding to obtain Census Tract IDs and MSA codes for each loan record;

» Agency reporting compliance validation;

» Rate spread calculation

» Assessment area determination;

» Creation of HMDA and/or CRA submittals and LAR files for secure submission; and

» Loan portfolio analysis and reporting.

For further information or to schedule a free demonstration, please contact FIPCO's **Sally Michaels** at *smichaels@fipco.com* or by calling 800-722-3498, ext. 258.

New Interfaces Available for *Compliance Concierge*™ Customers

Check order interfaces for seamless productivity

Financial institutions utilize the checking account as a vehicle to strengthen and broaden relationships with their account holders. Through the use of interfaces, your financial institution can integrate with a variety of third party vendors to increase productivity, allow for direct access to correct information in a timelier manner, and eliminate costly errors that result from duplication of data entry.

Check Order Interface is a one-way, interactive interface that transfers customer information from *Compliance Concierge*™ to check vendor websites. This integration allows the user to seamlessly complete the check ordering process, delivering timely and accurate customer service.

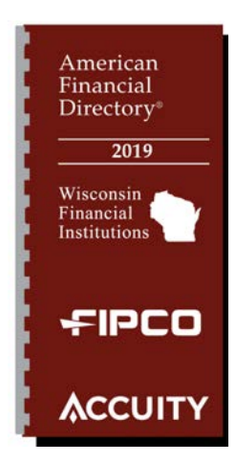
FIPCO now offers the following four check ordering interfaces to *Compliance Concierge*™ Deposit!

1. Harland Clarke
2. Deluxe
3. Main Street Checks
4. Bank-A-Count (Checks for Less)

For more information about FIPCO forms, software, or other products, please visit *www.fipco.com*, call 800-722-3498 or email *fipcosales@fipco.com*.

Visit www.fipco.com, call 800-722-3498 or email fipcosales@fipco.com for more information.

Have You Ordered Your *2019 Wisconsin Financial Institutions* Directory?



Now is the time to place your order for copies of the 2019 edition of this valuable office resource by visiting *www.fipco.com/products/wisconsin-financial-institutions-directory* or contacting FIPCO's **Jodi Zieske** at 800-722-3498, ext. 274.

Pricing:

WBA members: $125 per directory
Non-members: $150 per directory

Survey Finds Strong Employee Connections Create Value for Your Bank

By Matt Shefchik

The factors facing the banking industry today make finding and keeping talented employees extremely difficult. Low unemployment, candidate demands, employee expectations, and organizational performance goals mean more organizations are turning to their HR functions to reach their organization's potential. We heard those sentiments loud and clear from members of the WBA in the results of the 2019 Human Resources Planning Survey conducted by The QTI Group.

In September 2018, 90 banks and financial institutions participated in QTI's annual survey of HR challenges and practices within the state of Wisconsin. We have recently published the full results and findings on QTI and WBA's website (*www.qtigroup.com*, *www.wisbank.com/QTIsurvey*). Key challenges highlighted by the members include:

» Attracting the right talent

» Higher compensation demands

» Enhancing employee engagement

» Attracting the Right Talent

We saw a substantial majority of banks (90%) finding moderate-to-significant challenge in finding good, talented candidates to fill open roles. The banks are not alone in this concern; we are seeing the general industry struggle as well. The difference we see for the banks is a battle (72% reported difficulty) to find entry level employees, those in the non-exempt office roles (such as tellers). Outside of the banks, the concern is more professional level white collar jobs.

As banks try to attract the best and brightest, they have turned to highlighting their company culture, benefits offerings, and environment to draw in people. Other ways to draw in talent is to seek known commodities like friends and family. Some have turned to referral bonus programs averaging $400 per hire. Unfortunately, that is about half of what we see outside of the industry.

» Higher Compensation Demands

Cash is still king when it comes to the importance of rewards at work. With unemployment at historic lows in Wisconsin, we see candidates and employees flexing their influence and demanding higher pay. Base pay ranks as the most important reward option reported, even as banks talk about culture, benefits, and total rewards to get people in the door.

Banks see rising pay as a challenge (79% report a moderate-to-significant challenge) in 2019. After being 10 years removed from the Great Recession, we are only now starting to see pay increase budgets begin to rise. Wisconsin banks are anticipating 3% base pay increases, and other outlets are reporting 3.0%-3.2% increases for the upcoming year. As new hires arrive with higher pay, we find that 64% of banks experience pay compression between new hires and current staff, and over 50% are losing talent to higher paying offers.

Bank leaders are feeling the pressure on both the pay and benefits fronts. Eighty-one percent of respondents see benefit cost containment as a moderate-to-significant challenge. There are not unlimited resources to allocate to the total rewards pie; banks should survey their staff to understand what they value, as well as develop communications strategies targeted at the most valuable aspects of the rewards package for employees.

» Enhancing Employee Engagement

Anything the bank can do to get out of the vicious circle of turnover and recruiting, and retain their current talent by focus on appreciating, recognizing, and rewarding them will create a more productive banking environment. Of the participating banks, 78% view enhancing employee engagement as a challenge for next year. Internal training programs, mentoring, and coaching are options that a majority of respondents are using to focus on development of the team to help the organization reach its potential. One way to understand how to engage your current workforce is to ask, either through formal employee engagement surveys, like QTI Engage™, or individual stay interviews, which only 27% of the participating banks are conducting.

» Connections

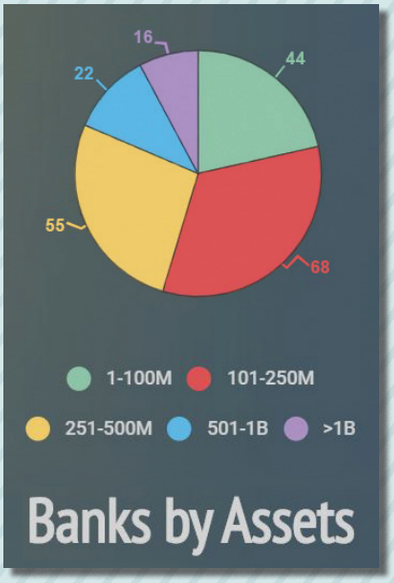
QTI's final takeaway from the survey this fall is that banks have a great opportunity to create stronger bonds and connections to their staff in 2019. Competitive pay, accountability, recognition, and open communications can go a long way in driving performance of employees, attracting new talent, and ultimately providing great customer experiences for the bank. Balancing creativity and tried-and-true methods to engage staff will help the banking industry reach full potential.

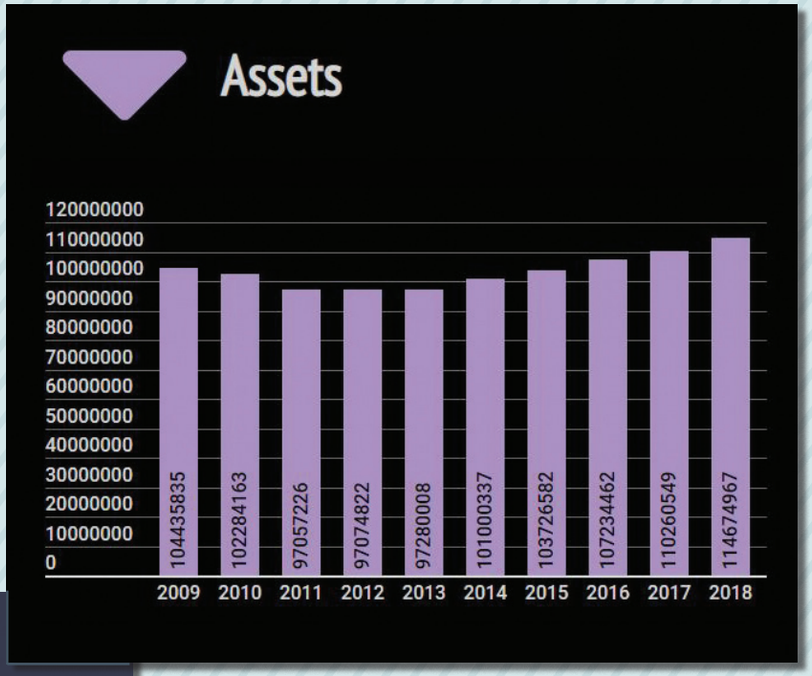
Shefchik is COO – Strategy and Engagement at The QTI Group.

Wisconsin Banking Trends:

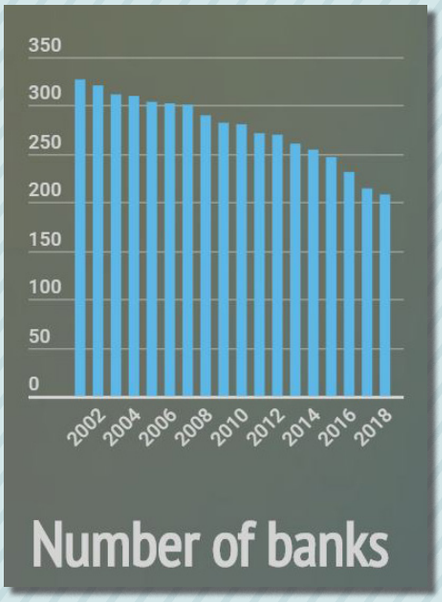
A Peek at 10 Years of Wisconsin Banking*

$ in 000's. This is FDIC quarterly data from June 30 of each year. This is a year-to-year comparison minus M&I Bank data which was acquired in 2011.

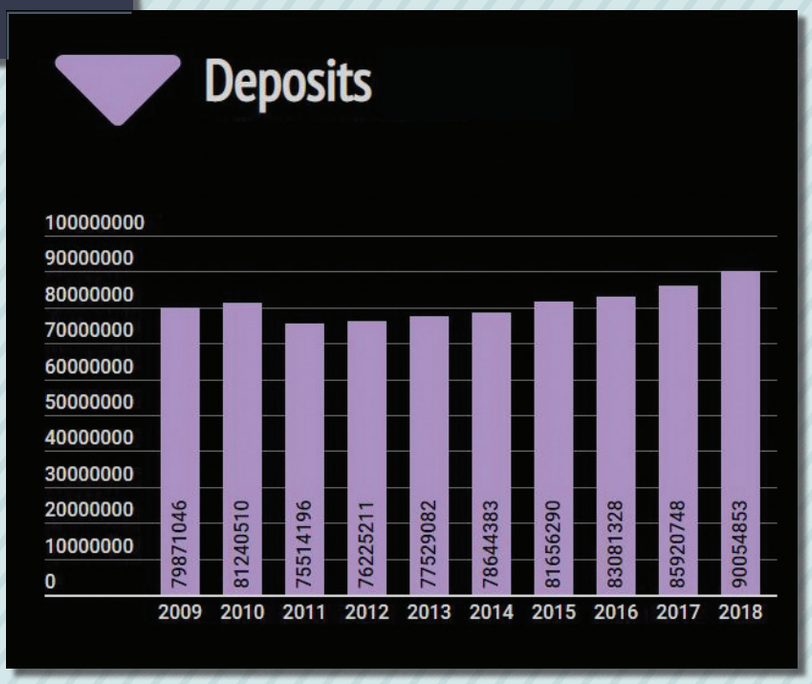




*__Banconomics__ (*www.banconomics.com*)
Compiled by CliftonLarsonAllen and powered by the Wisconsin Bankers Foundation, the *Banconomics Report* provides benchmarks and a breakdown of industry data from FDIC quarterly call reports categorized by asset quality, liquidity, and profitability. Bankers can use this resource to create peer comparisons for their own internal use as well as share benchmarking data with their bank board of directors. The website offers trending economic data in addition to the *Banconomics Reports*. Visit *www.banconomics.com* to learn more.



The charts shown here are a sample of the information available at *www.banconomics.com*.



Bulletin Board

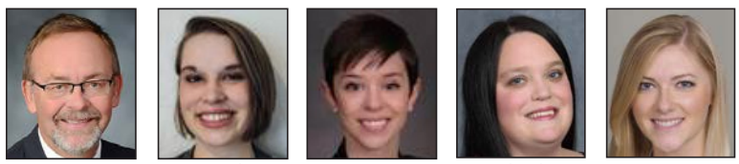
News about people working in Wisconsin's financial institutions

Promotions and New Hires

Appleton

East Wisconsin Savings Bank has hired **Kory Schneider** *(pictured)* as vice president of member relations.

Schneider | Kasten | Quakenbush | Gutknecht | Pasch



Bence | McLendon | Farra | Flood | Gregerson

Burlington

Community State Bank is very excited to announce that **Justin Kasten** *(pictured)* has recently joined CSB as retail manager of the Burlington location.

Fitchburg

Oak Bank is pleased to announce the promotion of **Lisa Quakenbush** *(pictured)* to chief financial officer.

Grafton

Cornerstone Community Bank is pleased to announce the promotion of **Christie Gutknecht** *(pictured)* to assistant vice president – loan operations.

Holmen

Justus

WNB Financial is pleased to announce that **Dave Justus** *(pictured)* has joined the bank as vice president and business banking officer at its office in Holmen.

Ixonia

Ixonia Bank is pleased to announce that **Tom Pasch** *(pictured)*, vice president of commercial lending, has moved from the Ixonia headquarters to the bank's Watertown-Oakridge Court branch; and that **Jim Bence** *(pictured)*, assistant vice president of retail lending, has relocated his office from Watertown-Oakridge Court to the Ixonia headquarters.

Madison

Settlers bank has added **Kayla McLendon** *(pictured)* as universal banker/compliance support specialist, and **Lindi Farra** *(pictured)* as a mortgage loan officer.

Capitol Bank has welcomed **Heather Flood** *(pictured)* as assistant vice president of deposit operations, **Natalie (Braun) Gregerson** *(pictured)* as director of marketing, and **Briel Kohl** *(pictured)* as a portfolio manager.

David Stein *(pictured)*, executive vice president and head of Consumer and Business Banking for Associated Bank, will serve as Madison market president, effective Jan. 1, 2019.

Medford

Michael Schaefer *(pictured)*, president and CEO of Taylor Electric Co-op, was recently elected to the Board of Directors of Time Federal Savings Bank.

River Falls

Grove

First National Bank of River Falls (FNBRF) is pleased to announce the hiring of **Mike Grove** *(pictured)* as the new vice president – commercial lender.

Waukesha

Waukesha State Bank has hired **Craig Mariani** *(pictured)* as mortgage consultant.

Wisconsin Dells

Bank of Wisconsin Dells is pleased to announce the hiring of **Stephen Timm** *(pictured)* as commercial loan officer.

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Peoples Donates Over 7,700 Items to Area Military Support Group

Wisconsin veterans and soldiers serving overseas will benefit from the 7,700 items and $672 in cash donations collected from customers and employees at nine Peoples State Bank locations during Peoples military care package drive. **LeRoy Eades**, of the Rhinelander Military Support Group, was presented the items in November at the Peoples Rhinelander-Anderson Street location. The items were collected in a donation drive held in honor of Veterans Day. Items donated included food, clothing, entertainment items, and hygiene products (toothbrushes, shampoo, razors, deodorant, etc.). The Rhinelander Military Support Group uses these items to create care packages for both veterans and active military members from Wisconsin who are overseas.

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

Retirements

(continued from p. 14)

Madison

Gary Schaefer *(pictured)*, corporate executive of Associated Bank and Madison senior market president, retired from his position on Dec. 31, 2018. Schaefer joined Associated in 1995. His successful career spans 45 years within the financial services industry.

Marion

Richard (Dick) Pamperin *(pictured)* recently announced his retirement from the board of directors of Premier Community Bank after 40 years of service. Pamperin was frequently recognized for his efforts by many different groups. In 1991, he was recognized as the Wisconsin Community Banker of the Year for his service to banking and the community, and in 2007, the American Bankers Association awarded him the Bruning Award, recognizing the significant service to America's agricultural and rural community. In 2008, the Wisconsin State Legislature recognized and cited Pamperin for over 40 years of exemplary service.


Kohl


Stein


M. Schaefer


Mariani


Timm


G. Schaefer


Pamperin


Krowczyk-Mendoza


Danielak


Manke

Associate Members

Chicago

Plante Moran is pleased to announce that **Sherrie Krowczyk-Mendoza** *(pictured)* has joined the firm as a partner in its financial services practice.

Announcements

Green Bay

Wisconsin Law Journal and *The Daily Reporter* celebrated Associated Bank for its commitment to diversity and inclusion with a Diversity in Business Award. Associated Bank's commitment is demonstrated through company-wide work groups, a promotion policy and assistance to homebuyers.

Marinette

Jeanie Danielak *(pictured)* recently received the 2018 *Mary L. Staudenmaier WINGS (Worthy Individual Noted for Generous Service) Award.* Named in honor of SNBT's former chairman and long-time president, the award epitomizes Danielak's unwavering participation in public service for the community. Additionally, **Laura Phelps** and **Hailey Schultz** have received The Stephenson National Bank & Trust (SNBT) Award of Excellence. Created in 1988, the award is given to two employees annually. Recipients are nominated by their co-workers for demonstrating excellence in customer service, reliability, responsiveness to customers' and bank employees' needs, superior job knowledge, professionalism, motivation, and productivity.

Markesan

Markesan State Bank was proud to present a donation totaling $598.56 to the Fischer House. This money was raised during MSB's employees' September "Denim Day." Accepting the donation on behalf of Fisher House was retired SGT Major **Dave Brinkman**. Every month the Bank's employees can choose to donate $5.00 to a not-for-profit cause for the privilege of wearing jeans to work on a set day. Fischer House is "a home away from home" for families of patients receiving medical care at major military and VA medical centers.

Oconomowoc

BankBeat magazine announced their 2018 award recipients for their Outstanding Women in Banking Award. **Sharon Manke** *(pictured)*, First Bank Financial Centre's security officer and an Oconomowoc resident, was one of six women to receive the award. From tellers to presidents, *BankBeat* profiles bankers who have gained the respect of peers, bosses and customers by providing outstanding service, thoughtful management or innovative leadership.

Farmers & Merchants Bank Raises Funds for Flood Relief in Monroe County

With numerous households and businesses throughout the community struggling to pick up the pieces in the aftermath of this summer's devastating floods, Farmers & Merchants Bank in Tomah decided to help. F&M Bank set up a Monroe County Disaster Recovery Account where people could make donations for those specifically in Monroe County who were impacted by the storms. They began gathering donations in August, matching the first $1,500 of donations. Including its contribution, the bank raised $9,165.25 with the help of the community. F&M Bank then reached out to United Way in order to get the funds out into the community.

Wisconsin Bankers Association

Calendar of Events

January – October

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

Bank Executives Conference
Feb. 4-6 | Milwaukee
(See article on pgs. 8-9.)

Agricultural Bankers Conference
April 10-11 | Wisconsin Dells

Women in Banking Conference
April 23 | Wisconsin Dells

Trust Conference
May 3 | Wisconsin Dells

Human Resources Conference
May 9 | Wisconsin Dells

Group Meetings

WBA CEOnly | CFOnly Networks Group Meetings
March 8 | Wisconsin Dells
June 7 | Wausau
Oct. 11 | Madison
(See article on pg. 29.)

Luncheons

Wisconsin Economic Forecast Luncheons
Jan. 9 | Madison
Jan. 11 | Eau Claire
(See ad on pg. 31 or register online at www.wisbank.com/EconomicForecast.)

Power of Community

WBA Power of Community Week | Wisconsin (statewide)
April 22-26 | 2019
(See ad on pg. 25.)
(Visit www.wisbank.com/BanksPowerWI online or Twitter – #BanksPowerWI.)

Schools/Boot Camps

Commercial Lending School
Feb. 18-22 | Wisconsin Dells

Residential Mrtg. Lndg. School
Feb. 18-22 | Wisconsin Dells

Loan Compliance School
March 11-15 | Wisconsin Dells
(See WBA Featured Events.)

Real Estate Compliance School
March 13-15 | Wisconsin Dells
(See WBA Featured Events.)

Branch Manager Boot Camps in Madison
Attend only one or more days.
Day 1: Mar. 11 | Day 3: April 10
Day 2: Mar. 12 | Day 4: April 11

Credit Analysis Boot Camp
March 14-15 | Madison
March 28-29 | Green Bay

Seminars/Workshops

Community Bankers for Compliance (Session 1 of 4)
Jan. 22 | Stevens Point
Jan. 23 | Madison

Ag Problem Loans Workshop
Feb. 27 | Wisconsin Dells

Call Report Workshop
March 5 | Wisconsin Dells

Advanced IRA Workshops
March 13 | Rothschild/Wausau
March 14 | Madison

Security Officer Workshops
March 19 | Green Bay
March 20 | Eau Claire
March 21 | Wisconsin Dells

Webinars *(online training)*

(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:

> Like Us	> Follow Us	> Join Us	> Watch Us
Wisconsin Bankers Association – *www.facebook.com/wisbank*	@wisbank – *www.twitter.com/wisbank*	Wisconsin Bankers *www.linkedin.com/company/wisconsin-bankers-association*	Wisconsin Bankers *www.youtube.com/WisconsinBankers*

WBA Featured Events

Business Banking Boot Camp, Compliance Schools

Business Banking Boot Camp » NEW PROGRAM

April 30–May 1 | De Pere
May 2-3 | Madison

This program will help your bank grow by providing business bankers with effective sales skills to help them become more productive. The boot camp will model a step-by-step approach from initiation to execution of the business process and provide a structured sales environment. Students can expect to learn how to develop and enhance overall sales, an introduction to the concepts of opportunity management, a process for inbound and outbound calls, tactics for staying in control of the sale without being pushy, the importance of follow-through to increase conversion rates, and help with sales strategy development to bring in more business in less time.

Visit *www.wisbank.com/education* to learn more and to register.

Loan Compliance School

March 11-15 | Wisconsin Dells

This school will provide attendees with a fundamental overview of the various lending regulations affecting their institution and updates in current trends in compliance, as well as the guidelines to use in interpreting federal and Wisconsin state laws, regulations, and official commentary. The school includes all of the elements of the popular WBA Real Estate Compliance School, with additional curriculum covering lending rules not specific to real estate. Students will learn about Fair Housing, UDAAP, ECOA, Military Lending, RESPA, HMDA, real estate appraisal rules, the Flood Protection Act, variable rate lending rules, and Wisconsin-specific laws.

Visit *www.wisbank.com/education* to learn more about the school and to register.

Real Estate Compliance School

March 13-15 | Wisconsin Dells

This three-day school will provide attendees with a strong foundation on federal and state real estate lending laws and regulations. The curriculum will cover topics such as truth in lending (focused on real estate), the Homeowner's Protection Act, RESPA, real estate appraisal rules, the Flood Protection Act, ECOA, HMDA, UDAAP, variable rate lending, and Wisconsin-specific real estate law.

For more information about the school and to reserve your space today, visit *www.wisbank.com/education*.

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

WBA
WISCONSIN ECONOMIC REPORT
A compilation of sector forecasts from industry experts.

Wisconsin Bankers Association

Banks Will Overcome Challenges, Continue Strength in 2019

By Rose Oswald Poels, WBA President and CEO

Wisconsin's banking industry saw steady growth throughout 2018, and I expect that trend to continue for most of 2019.

Much of the strength of the last year can be attributed to greater national certainty and legislative policies at the state and federal level that have improved the overall economy, providing consumers and business owners with greater confidence to borrow money for purchases and to fund growth. Certainly federal tax reform has strengthened the balance sheet of both individuals and businesses, including banks. In addition, the banking industry finally saw the beginning of regulatory relief with the bi-partisan passage of S. 2155, the Economic Growth, Regulatory Relief and Consumer Protection Act. There is a delay in realizing the benefits from this law as regulators need to write rules to implement the law; however, much of the industry will see some relief from overly burdensome rules. The industry will continue to work with the 116th Congress to hopefully provide more meaningful relief for both banks and their customers.

Looking ahead to 2019, there are several indicators bankers and regulators are watching that will impact the banking industry: core deposits, the ag sector, and technology. Core deposits are an important component of a bank's funding source and one that regulators expect to be a primary source. However, as Wisconsin's population continues to age and competition from non-bank sources intensifies, banks are finding it increasingly challenging to grow core deposits from local sources. As a result, banks look to other sources for funding loans which often are more expensive, impacting a bank's net interest margin. On the loan side, regulators are focused on ag portfolios and concentrations of commercial real estate loans. Additionally, the competition to attract loan customers has been very strong and regulators are closely watching bank's underwriting standards to ensure they maintain discipline.

The ag sector is understandably a concern as farmers have experienced the "perfect storm" of challenges for too long. Ag lenders will continue to work closely with their farm customers to help them through these challenging times in 2019 but as more annual operating loans are rolled over into longer term financing, the need for a positive turn-around in the health of our state's ag sector becomes increasingly critical for banks and farmers alike. Industrial hemp is a potential new crop that could help provide some diversity to Wisconsin farmers. Bankers are helping advocate for the 2018 Farm Bill to permanently legalize hemp and hemp products so that banks have a clearer regulatory path to do business with all groups involved with this crop and its byproducts.

Technology will continue to transform the way banks do business in 2019 as investment in this area remains strong. Technology improvements are focused not only on streamlining internal operations but also on enhancing the customer experience with a bank. This necessary expense also impacts a bank's net interest margin.

Through the third quarter of 2018, the number of Wisconsin-headquartered banks declined to 204, and I expect that number to continue to decline in 2019 by about 6-8%. Banking remains a relationship business so even as acquisitions continue, branch offices will exist in communities where a headquarters once was located to continue to meet the financial needs of local customers.

Despite our shrinking numbers, the size of Wisconsin banks will continue to grow because we are the engine of our state's economy. While the outlook for much of 2019 is positive for the industry, we are mindful that a correction is coming and may start to materialize near the end of the year.

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

WBA
WISCONSIN ECONOMIC REPORT

Wisconsin REALTORS® Association

Tight Supply and Strong Demand Keep Home Sales Flat and Drive Up Prices

By Michael Theo, WRA President and CEO
*With insights from **Dave Clark**, economist with Marquette University*

The national economy is effectively at full employment with very low unemployment rates, core inflation in check, and an influential index of consumer confidence which is at an 18-year high. Although mortgage rates have drifted upward as the Federal Reserve has pushed up short term interest rates to control inflationary pressures, mortgage rates remain below 5% as of October 2018. The Wisconsin job market paints an even stronger economic picture, with historically low unemployment rates at or below 3% between February and October of 2018, and solid job growth throughout the year. In short, demand conditions are very strong which should support robust growth in home sales, yet sales through October lag behind the totals for the first 10 months of 2017 by 2.2%. The challenge for the housing market is on the supply side, and indeed, the state has been in a strong seller's market throughout 2018.

There are three fundamental sources of housing supply and none of these sources has improved over the past 12 months. Total listings of existing homes in the state have remained below the levels of 2017 throughout the year with October total listings 13.2% lower than the level 12 months earlier. New construction is essentially flat. Comparing the first three quarters of 2018 with that same period last year, Wisconsin's single-family home permits were up just 0.3%. Finally, single-family foreclosures for the first nine months of the year are at the lowest levels in 18 years. The combination of strong demand and very tight supply has kept Wisconsin sales lower than last year and has pushed median home prices up 6.9% year-to-date, more than twice the rate of inflation. This has eroded a key indicator of housing affordability in the state. Specifically, the Wisconsin Housing Affordability Index, which shows the fraction of the median-priced home that a borrower with median family income can afford to purchase, assuming 20% down and the remainder financed at current rates with a 30-year fixed rate mortgage. The October indicator suggests that a typical buyer can afford to purchase 196% of the typical home, which is down from 219% in October of last year.

So what does the future hold for housing in Wisconsin? Much depends on the future path of the economy. The last recession ended in June 2009, which puts the current expansion just shy of 10 years. The typical post-war expansion is 58.4 months but the last three have averaged 95 months and the expansion during the 1990's was exactly 10 years in length. Thus, it may seem as though a recession is on the horizon. However, the fundamentals of the economy remain solid, including steady improvements in employment which pushed the national unemployment rate down to 3.7% in October. With the Fed keeping core inflation near its target rate of 2%, and with annualized Real GDP growth at 2.3% in 2017, and ranging between 2.2% and 4.2% for each of the first three quarters of 2018, there are no immediate alarm bells suggesting a recession is imminent. Indeed, the Survey of Professional Forecasters conducted each quarter by the Philadelphia Federal Reserve Bank puts the risk of a negative quarter of GDP growth at no more than 20% through third quarter of 2019.

The supply side of the market is likely to improve only slightly over the next year, since the two primary sources of supply, listings of existing homes and new construction of single-family units, are not likely to change quickly. Health circumstances will eventually cause Baby Boomers to transition out of single-family housing, and some of those in the Gen-X generation may choose to right-size and hence put their homes on the market, but these demographic changes are likely to evolve gradually.

The Fed's policy focus needs to maintain low inflation without slowing the economy too quickly. Likewise, federal policymakers have removed some of the regulatory burden that hindered the competitiveness of U.S. firms. The president and congress need to avoid negating some of those gains by pushing for permanent increases in tariffs that ultimately raise input costs, slow economic growth, and generate inflation. Likewise, state and local policymakers should consider reforms that maintain the favorable business climate in the state. They should reduce the regulatory burden on developers and homebuilders, if new construction is to help close the supply gap. The Wisconsin economy has outperformed our neighbors to the south as they struggle to get their fiscal house in order. While currently an advantage for Wisconsin, this is a playing field we do not want to level by endorsing strategies that ultimately hinder future growth.

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

Wisconsin Agriculture in Crisis

By Dale M. Beaty, WFBF Chief Administrative Officer

WBA WISCONSIN ECONOMIC REPORT

During the darkest days of World War II with Britain on the verge of defeat, Winston Churchill said, "When you are going through hell, keep going."

2018 will be engrained in the mind of Wisconsin farmers as the year to persevere. Many farmers are at a financial and mental breaking point because of a confluence of challenges which include four continuous years of declining farm income, anxiety over foreign trade negotiations, the lack of a workable federal immigration policy, and the absence of Mother Nature's cooperation. Few signs of improvement are predicted for 2019, especially for our state's dairy industry.

> "Sadly, Wisconsin leads the nation in Chapter 12 farm bankruptcy filings with 47 in 2018. Financial struggles and the prospect of losing their way of life has led to increased depression among farmers."

The average farmer's income has declined nearly 35 percent since 2013 according to the U.S. Department of Agriculture. While farmer income declines, input costs such as labor, energy, insurance, equipment, and maintenance continue to rise. Farmers continue to lose money and burn through their equity. Sadly, Wisconsin leads the nation in Chapter 12 farm bankruptcy filings with 47 in 2018. Financial struggles and the prospect of losing their way of life has led to increased depression among farmers.

Many farmers support President **Donald Trump's** attempts to open foreign markets because they recognize free trade is very favorable to the agricultural economy in the long-term. However, in the short-term, farmers are bearing the brunt of trade disagreements because of retaliatory tariffs. It is unlikely China will agree to lower their tariffs anytime soon. The Trump administration is offering $12 billion in farm aid to help ease the pain; however, those payments won't avert the current farm crisis. Farmers want trade, not government aid.

Wisconsin farmers need federal immigration reform to maintain a consistent and reliable workforce. Farmers want the Federal government to create an immigration system which allows them to legally employ foreign workers. This is important because there is a shortage of workers in Wisconsin, and very few Americans are willing to consistently do the manual labor required on farms.

In addition to the financial stress and anxiety over trade negotiations, farmers had to persevere through challenging weather this year to complete their harvest. During the summer, many farmers were gifted too much rain through severe storms, causing flooding and damaged crops. Mother Nature dealt farmers long stretches of windy, wet, and cold weather this fall which reduced crop quality and made it hard for farmers to get the crop out of the fields.

Wisconsin farmers are trying to pilot through this low-price time by investigating alternative revenues. Over the years, the uses of industrial hemp have grown significantly and thanks to a pilot program, farmers are once again dabbling with the crop. There are thousands of uses and a $700 million domestic market waiting to be filled by farmers. Whether it's a different crop, an on-farm store, agri-tourism or diversifying, our farmers are doing the best they can to navigate their businesses.

We all eat. Therefore, we all need to care about our farmers and agribusiness owners. What can you do during this difficult time for them?

1. Add more dairy and locally grown farm products to your family's diet.
2. Take part in the "10-gallon challenge" which benefits both dairy farmers and needy families. Call your local food pantry to see if they accept perishable items, then head to your local grocery store, buy ten gallons of milk and drop it off.
3. Consider becoming a Farm Bureau member. Farm Bureau is a non-profit organization of, by, and for farmers. Wisconsin Farm Bureau advocates on behalf of farmers at the county, state, and national levels. To become a member, visit *wfbf.com/membership*.

The agricultural industry is cyclical. With agriculture contributing more than $88 billion to our state's economy, we need the cycle to head upward soon.

WFBF is the state's largest general farm organization, representing farms of all sizes, commodities, and management styles. There are nearly 47,000 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.

WBA
WISCONSIN ECONOMIC REPORT

Wisconsin Grocers Association

Competition. Change. Challenge.

By Brandon Scholz, WGA President and CEO

These three simple words fully capture what happened in the retail grocery business in Wisconsin during 2018. And not surprisingly, they are the foundations for what grocers and food industry retailers will be going through in 2019.

Most all businesses can lay claim to the competitive factor in their respective industries, but few can match the competitive nature of the grocery industry because of the razor thin margins that grocers are forced to deal with. Not only do retailers, large and small, single or multiple store operators have to compete with the store down the street, but they have to compete with other non-grocery retailers who want to sell select groceries and products.

Convenience stores and pharmacies have expanded their product lines with fresh food, beer and wine, beverages and more. Pharmacies especially have cut deeply into home and beauty care product sales. Big box hardware stores selling groceries and specialty stores for pets have reduced these categories in the grocery store.

There's an old story about a New York City electronics dealers who undercut every single competitor with the absolute lowest prices in the city. When asked how he could do that, his answer was simple—volume. The man could have been a grocer.

With skimpy margins, grocers have to laser focus on bringing back the customer and really can't afford to lose them or let them troll other competitors.

Competition is great for consumers. Groceries are some of the best priced bargains around. Trading Economics reports, "(The) cost of food in the United States increased 1.2 percent in October of 2018 over the same month in the previous year. Food Inflation in the United States averaged 3.41 percent from 1914 until 2018."

If competition was just about the grocer down the block, one could say that's relatively manageable. When an entirely new force comes into the universe, just about everything changes. Online shopping isn't coming; it's here. And it is a change for the good.

Granted, the majority of grocery shopping still takes place in traditional brick-and-mortar grocery stores. But with more and more retailers bringing online shopping, pick-up, and delivery into their business model, online growth will accelerate.

Statista notes, "In total, U.S. online grocery sales amounted to about 17.5 billion U.S. dollars in 2018 and are expected to rise to nearly 30 billion U.S. dollars by 2021."

In this age of smart phones and near constant internet access, many grocery retailers are integrating a range of new and exciting services into online grocery shopping using mobile apps, click-and-collect, and home delivery.

More than half of the grocers offer a variety of mobile apps offering exclusive e-coupons, online ordering, or loyalty card programs and more. In a few short years, this will be standard in the industry.

There are some impediments to the growth of online found mostly in the ability to offer home delivery or pick up at the store and prohibitions on home delivery of alcohol, but that continues to change as customers demand that service.

Change creates challenges. While it's critical to offer online grocery shopping, somebody has to go through the store, pick and process the order, bag it, and get it set for pickup and delivery. That creates new duties and likely new jobs. I recently saw a store manager power shopping for an online order—clearly more manpower is needed!

When was the last time you went grocery shopping and all the checkout lanes were full with checkers? It's a rare sight these days because grocers, like most other employers, can't find enough people to fill the available jobs that are open. And we're not just talking about checkers and baggers. Department managers, dietitians, HR, pricing, store managers… positions at every level.

Add into the mix changes coming to the grocery industry like online ordering, store pickup, and home delivery and more positions are created and when that volume doubles, stores will need more employees to fill these positions. There are more than 3,500 job openings in Wisconsin for grocery stores. That number changes daily and will only go up as the industry and competition grows.

The grocery industry stands ready and willing to work with Governor-Elect **Tony Evers** and the State Legislature to be a part of the effort to grow and expand Wisconsin's workforce. While there are many priorities on political agendas, expanding the workforce has to be one of the top efforts.

Without a sufficient workforce, employers and employees will suffer as businesses will not be able to compete and that will begin to change the dynamic of the brick-and-mortar, mom-and-pop grocery stores in Wisconsin.

Competition. Change. Challenge. Three words that demonstrate the current retail industry and three words that exemplify the industry that is constantly challenged and changing to meet competition.

The Wisconsin Grocers Association represents nearly 1,000 independent grocers, retail grocery chain stores, warehouses and distributors, convenience stores, food brokers and suppliers. 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

Wisconsin Health Care Leads as Cost Pressures Grow

By Eric Borgerding, WHA President and CEO

WBA WISCONSIN ECONOMIC REPORT

It's becoming a bit redundant to begin this annual column by noting the outstanding performance of Wisconsin's health care system, but excellence in any Wisconsin industry is good for all of Wisconsin. Once again the Agency for Health Care Quality, the gold standard in national quality ranking, has ranked Wisconsin health care as some of the very best in the country. According the AHRQ, in 2018 our state has the fourth best health care in the country, and first in the Midwest.

Since AHRQ began issuing rankings, Wisconsin has been in the top four 10 of 12 years. Quality care delivers superior outcomes for patients and ultimately better value for employers. That's good news as WBA launches its new association health plan.

While Wisconsin hospital finances have remained relatively stable over the past few years, a snapshot of the data flashes "caution ahead" (comparing FY2015 to FY2017 for Wisconsin hospitals):

» Experienced a 21% decline in operating margins;

» More than half saw a decline in both operating and total margins;

» 38 had a negative operating margin;

» 33 had a negative total margin, including 13 rural Critical Access Hospitals.

Wisconsin's health system leaders point to three issues that most directly impact those finances and pose the greatest challenge to sustaining Wisconsin's superior quality care:

Workforce: Like most industries, health care is grappling with serious shortages in key areas. Unlike most industries, demand for health care's "product" is largely a function of demographics rather than typical economic cycles. Wisconsin's population is aging; our over 65 population is expected to double in the next 10 years. This assures growing utilization of health care services and increasing demands on and for the health care workforce.

Despite advances in technology, health care is still a very labor intensive business. In 2017 Wisconsin hospital labor costs totaled nearly $8.8 billion, up 7.3% in two years, and hospital supply costs (including drugs) totaled $9.4 billion in 2017—up 16% in two years. It's not getting cheaper to deliver health care.

Health Insurance Coverage: Uncertainty is the bane of health care leaders, and no aspect of health care has been less certain recently as health insurance, due largely to ongoing Obamacare battles in Washington, DC and Madison. For the past two years I've speculated in this column that repealing Obamacare would prove extremely difficult for Congress. I was wrong … it's been impossible. In fact, certain aspects of repealing Obamacare became a pivotal issue in Wisconsin's Governor's race and others. We've all heard the saying "If you break it you own it." When it comes to Obamacare, if you break it, or don't fix it, you own it.

Political ramifications aside, the inability to either repeal and replace or just fix Obamacare has contributed to an upward spike in health insurance costs (Obamacare premiums +36% in 2018) and a commensurate uptick in Wisconsin's uninsured rate. In the "business" of health care, when people become uninsured, the care they still receive from Wisconsin's hospitals becomes "uncompensated." In 2017 hospital uncompensated care rose 11% to $417 million—hundreds of millions in unpaid costs that must be shifted to Wisconsin employers and families.

The good news here is the Obamacare insurance market is showing signs of stabilizing. For the first time since 2014 there will be a net increase in the number of insurers offering coverage on the exchange. Even more promising, premiums in Wisconsin are actually projected to DROP in 2019 by 4.2%—a 40 point swing in one year, in part due to some fixes adopted by Wisconsin.

Government Health Care Programs: Payment from Medicaid (state) and Medicare (federal) continue to fall far below what it actually costs hospitals to provide care. Critics of health care costs will often point to other elements of the economy and ask, for example, "Why is buying health care so much different than buying a car?" The simple answer is, auto dealers are not required by law to sell cars at 35% below their own cost (Medicaid), or for some customers, 100% below cost (see "uncompensated care" above). The difference between hospital cost and payment in Medicaid alone was $1.1 billion last year, the equivalent of adding another 13% to hospital labor costs (keep that in mind when Wisconsin debates expanding Medicaid in 2019). Compounding this situation is the fact that the "payer mix" at many Wisconsin hospitals can be as high as 75% Medicaid/Medicare. Throw into that equation the unfortunate reality that these unpaid costs have to be shifted to everyone else and you can see why "selling" health care isn't quite like selling a car.

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.

WBA
WISCONSIN ECONOMIC REPORT

Wisconsin Technology Council

Dusting Off a Dirty White Hat, Tech Stands to Rebound in 2019

By Tom Still, WTC President

After years of wearing nothing but white hats, Big Tech added gray and even a bit of black to its wardrobe in 2018.

Leaders of social media giants found themselves apologizing to Congress over the infiltration of their platforms by foreign hackers bent on spreading "fake news." The markets fell amid fears the party was over for major tech stocks after years of run-up. People began to question if trends such as autonomous vehicles and next-generation robotics were as close to reality as advertised. Cyber-security threats grew in number and sophistication.

As 2019 opens, those trends and more will continue to garner headlines nationally as the technology sector goes through a natural maturation process. From its market lows of 2009 through much of 2018, tech was a rambunctious youngster that romped through one success story after another. The swift sell-off of late 2018 turned tech—especially Big Tech—into more of a moody adolescent, but one eager to learn from its mistakes.

Many analysts predict the general decline in the value of tech stocks will correct itself in 2019 as buyers turned back to companies such as Amazon, Apple, Alibaba, Adobe, Salesforce, Twitter, and even Facebook. Meanwhile, a host of younger companies are poised to crack into the club as the pace of innovation quickens outside the traditional strongholds of Boston, New York, and California's Silicon Valley.

Wisconsin is one such hotspot, thanks to a combination of factors. The academic research and development landscape remains strong, with more than $1.5 billion spent in 2017 alone. Talented workers can be found among the graduates of Wisconsin's public and private colleges, universities, and technical colleges. The cost of doing business is lower, especially compared to the Silicon Valley, and employees can find affordable places to live without spending much of their lives in the car.

Some of Wisconsin's most iconic tech companies enjoyed strong years in 2018 and show no signs of slowing down. Verona-based **Epic** remains the nation's market leader in electronic health records and is venturing into global markets with success. **Promega** is expanding its U.S. and global business in biotechnology assays, reagents, and DNA analysis, among other products, and adding to its Fitchburg campus. Companies such as **Rockwell Automation** are poised to become leaders in Industry 4.0 as use of data and artificial intelligence transform manufacturing. Spun off from its parent in mid-2018, **GE Healthcare** has retained a strong Wisconsin presence with 6,000 employees in Milwaukee, Waukesha, and Madison. It plans to transition some work from a Maryland facility to Wisconsin. Madison's **Exact Sciences** is also expanding after having landed in Wisconsin as a two-person company a decade ago. It has about 1,000 workers today.

While it was a point of debate during the campaign for governor, **Foxconn Technology Group** is well on its way to building a state-of-the-art campus in Racine County and has announced satellites statewide. Its long-term effect on technology in Wisconsin stands to be significant.

Angel and venture capitalists remain intrigued by what Wisconsin offers. In 2016 and 2017, more than $500 million in angel and venture capital found its way into young state companies. Based on a record second quarter in 2018, that pace is likely to be at least as strong once the year's books are closed. Maturing state companies are raising money in other ways, such as the $150-million commitment to **SHINE Medical Technologies** by Deerfield Management Co. late in the year.

> "In 2016 and 2017, more than $500 million in angel and venture capital found its way into young state companies. Based on a record second quarter in 2018, that pace is likely to be as strong once the year's books are closed."

Much work remains to be done. Tech companies can be found outside the state's largest metropolitan areas but not enough. Better broadband connections will help retain and attract people and companies to rural Wisconsin. Attracting and retaining workers is a priority. Early-stage investments could still benefit from state programs that could give them a lift.

One priority for the Wisconsin Technology Council in 2019 will be helping young companies get in front of investors and potential customers through its conferences and events, as well as through the Wisconsin Healthcare Business Forum, a partnership with the Wisconsin Hospital Association and others.

Tech took some lumps in 2018, and 2019 remains sketchy for the economy at large if trade wars continue and two of Wisconsin's strongest historic sectors—manufacturing and agriculture—are caught in the crossfire. The foundation is there, however, for continued growth.

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

WisPolitics.com/WisBusiness.com

The Post-Election Landscape

By Jeff Mayers, WisPolitics.com President

WBA WISCONSIN ECONOMIC REPORT

Divided government has returned to Wisconsin for the first time since 2009.

And that means the first gubernatorial transition since 2011.

Eight years ago, Milwaukee County Executive **Scott Walker** took over for Democratic Gov. **Jim Doyle**, who left office voluntarily after two terms.

Now it's **Tony Evers** taking over for Walker, defeated by the state school's superintendent in an election that saw Democrats sweep all the statewide races. U.S. Sen **Tammy Baldwin** easily won another six-year term, dispatching GOP state Sen. **Leah Vukmir** of Brookfield. **Josh Kaul**, a former federal prosecutor, upset Republican Attorney General **Brad Schimel** after one term. Democrats also won the offices of Treasurer and Secretary of State.

But Walker had a Legislature dominated by his own party after the 2010 elections and through the end of 2018. Evers will have to contend with a Legislature dominated by Republicans and led by two veteran leaders: Assembly Speaker **Robin Vos**, R-Rochester and Senate Majority Leader **Scott Fitzgerald**, R-Juneau. The previous Democratic governor, Doyle, enjoyed a Dem-controlled Legislature for his final two years in office.

Evers' collaborative style could come in handy when it comes to compromise on big issues like road funding. But others worry that if Senate Republicans and Assembly Republicans unite, the Legislature could continually frustrate Evers.

The two-year state budget will be a test.

Evers gets to introduce his budget soon, and he promised two-thirds funding of schools and a middle-class tax cut. Typically, governors get 80 percent of what they ask for from the Legislature. And if they don't, they have one of the most powerful veto pens in the country.

The Joint Finance Committee will be led by two veteran co-chairs, state Rep. **John Nygren**, R-Marinette, and state Sen. **Alberta Darling**, R-River Hills. And Republicans will once again dominate the budget panel 12-4.

Republicans also hold wide majorities in the two houses. In the Senate, Republicans have 19 seats to the Dems' 14. In the Assembly, the GOP holds a 63-36 majority.

Democrats will have the same two leaders despite disappointing results on Nov. 6: Senate Minority Leader **Jennifer Shilling**, D- La Crosse; and Assembly Minority Leader **Gordon Hintz**, D-Oshkosh.

That means while Democrats in the Legislature can offer rhetorical help to Evers, he and his administration will have to do the heavy lifting.

After the Nov. 6 election, Evers got to work putting together a new administration. His transition team led was led by women.

He has named **Maggie Gau**, his campaign manager and a former legislative aide, as his chief of staff. Originally of Wausau, Gau formerly served as chief of staff for state Rep. **Chris Taylor**, D-Madison, and state Sen. **Janis Ringhand**, D-Evansville, and previously worked for former state Rep. **Ann Hraychuck**, D-Balsam Lake. Before that, Gau was deputy state political director on President Barack Obama's 2012 re-election campaign.

And Evers' transition director was **JoAnne Anton**, a top aide to ex-U.S. Sen. **Herb Kohl**. The deputy transition director was **Tia Torhorst**, the director of Strategic Partnerships for the Boys & Girls Club of Greater Milwaukee who managed the 2016 re-election campaign of Milwaukee County Executive **Chris Abele**.

Also in the mix were a healthy number of ex-Doyle agency leaders. **Aaron Olver**, the managing director of the University Research Park and a former Commerce secretary under Doyle, assisted Evers with personnel recruitment.

Olver led a 20-person Personnel Advisory Council that will work with making sure the incoming administration appointees reflect talent from around the state.

Among the council members were some former top Doyle appointees:

» **Frank Busalacchi**, former DOT secretary under Doyle.

» **Sean Dilweg**, former Wisconsin Insurance commissioner, now senior vice president government relations for MGIC.

» **Roberta Gassman**, former Wisconsin Department of Workforce Development secretary.

» **Donsia Hill**, former Department of Regulation and Licensing secretary.

» And **Ruben Anthony Jr.**, head of the Urban League of Greater Madison and a former top Department of Transportation official under Doyle.

That doesn't mean the new administration will be Doyle 2.0. But insiders say it's natural to tap the knowledge of veterans of past administrations. Evers, a less partisan figure, is seen as charting his own course.

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

WBA
WISCONSIN ECONOMIC REPORT

Wisconsin Manufacturers & Commerce

A Recession is Coming

By Kurt R. Bauer, WMC President and CEO

Don't be too alarmed by my ominous headline. Economic downturns are inevitable, and 2019 marks the tenth year of the post-Great Recession expansion, which makes it the longest economic recovery since the end of World War II.

Many economists have been predicting a recession for several years now. But they keep pushing back when it will arrive because of the economy's strong performance as measured by GDP growth and low unemployment. Some predict a mild recession in 2020, just in time for the presidential election. Others say that the federal tax reforms will act as a stimulus and delay a recession until 2021 or 2022.

But a recession isn't the only looming threat to the economy, both nationally and in Wisconsin. Here are other areas of concern as we enter 2019.

Worker Shortage: Nearly 80 percent of Wisconsin private sector employers say they are having trouble finding workers. It is Wisconsin's most profound economic challenge and likely will be beyond mid-century unless something unforeseen occurs, like a baby boom or a significant influx of workers from other states and/or countries.

Trade War: President **Trump's** tariffs and the retaliation they provoked from other nations create confusion, frustration, and uncertainty. It has caused steel and aluminum prices to spike in the U.S., and domestic producers are simply incapable of filling the void.

The not-yet-ratified United States Mexico Canada Agreement (USMCA) appears to be a Trump victory, as is the deal with South Korea. But the U.S. still must negotiate trade pacts with the United Kingdom (post Brexit), the European Union, Japan, and of course, China.

The trade disputes also destabilize America's geo-political relationships in Asia, where most of the world's economic growth will take place over the next three decades. Further, the tariffs are stressing pricing, upsetting customer relationships, and disrupting supply chains. One of the many unintended consequences of the steel and aluminum tariffs are higher automobile insurance costs because replacement parts are now more expensive.

Health Care Costs: Health care quality in Wisconsin is among the best in the nation, but it comes at a high price. Health care costs in the Milwaukee metro area are 17 percent above the national average and ranks fourth-highest in the nation, according to the Health Care Cost Institute. Costs in Green Bay are 14 percent higher than the U.S. average.

The struggle to offer affordable health care coverage to employees has overtaken taxes as the second biggest challenge facing Wisconsin businesses, according to WMC's semi-annual CEO Economic Survey (finding workers is number one).

Recession Risk: As mentioned, a recession is inevitable at some point in the relatively near future. The question is when will it occur, what will trigger it, and how bad will it be? Trade could be a cause, depending on how long the current disputes continue. Housing could also be a factor, given that sales have slowed due to rising interest rates and the increased cost of materials for new construction, which is another consequence of the tariffs.

Political Instability/Polarization: Democrats won control of the U.S. House of Representatives last November, albeit by a slim margin. The result is divided government in Washington (and Madison, for that matter) with the gridlock that goes with it. A Democrat-led House probably means partisan investigations into Trump on Russia, tax returns, hush money payments, etc. It could also threaten a government shutdown.

But, it might not be all bad. As **John O'Sullivan** wrote in the mid-1840s, "the best government is that which governs least." The other good news is despite America's political disharmony, the U.S. is considered stable by global standards and therefore an attractive place for investment.

Deficit/Entitlement Spending and the National Debt: Trillion dollar federal deficits have returned, and Democrats won the U.S. House (and the Wisconsin governorship) by pledging to expand government-financed health care benefits. The result is that the entitlement-fueled national debt, which is approaching $22 trillion, will grow largely unchecked.

Strong Dollar: A strong dollar is great if you are a tourist, but it creates problems for U.S. manufacturers and other exporters when competitors have a currency value pricing advantage. Compounding the strong dollar is a weakening Chinese Yuan, which is offsetting the impact of U.S.-imposed tariffs, most likely by design.

Creeping Socialism: A nationwide poll taken last August showed that for the first time Democrats have a more positive image of socialism than of capitalism. A WMC-commissioned poll in 2017 showed 44 percent of Wisconsin millennials preferred socialism. As someone who ardently believes prosperity grows when there is less government and more economic freedom, I find this trend alarming for the future of our economy and country.

Founded in 1911, Wisconsin Manufacturers & Commerce (WMC) is the combined state chamber of commerce, state manufacturers' association and state safety council. With nearly 3,800 members, WMC is Wisconsin's largest business association representing employers of all sizes and from every sector of the economy.

Compliance Playbook

(continued from p. 1)

One way is through increased transparency and trust. Interactions with customers—such as a meeting to provide and explain disclosures—are opportunities for transparency beyond what is required by regulation. "Going above and beyond has allowed us to improve our customer relationships," said Gagliano, who sees it as a way to build trust and help eliminate frustrating surprises down the road. "Transparency with the customer is what builds that trust as the cornerstone of the relationship," she continued. "If you lose trust with your customer, you've lost that customer. It's a long-term investment."

Bankers can also use their compliance knowledge to add value as expert advisors for their clients, for example by helping a business establish sound fraud-prevention policies or walking a customer through the steps needed to amend the FEMA map and remove their property from a flood plain. "In compliance, there's really no competition," said **Scott Nolan**, CRCM, assistant vice president – compliance officer at The Bank of New Glarus, who suggests sharing the bank's BSA policies and procedures with commercial clients. "We all have the same rules. We're not jeopardizing any trade secrets when we share what we're doing." In addition, the due diligence BSA requires can reveal opportunities for additional services, such as ACH origination, merchant processing, and remote deposit capture.

Finally, banks can deepen their customer relationships by demonstrating they have a culture of compliance. "We see that consumers have become more aware of concerns within the banking industry and want to work with banks that have established a culture of compliance," said **Heidi Wier**, managing director at CrossCheckCompliance. Banks that do this well have identified where to invest their compliance resources to get the highest return. "While several regulations present hard rules which must be abided by, not every regulation and rule we work under presents an absolute 'yes' or 'no' option," explained **Jay Jesberger**, CRCM, vice president – compliance officer at The Equitable Bank. One way to identify areas to invest resources in is to review the

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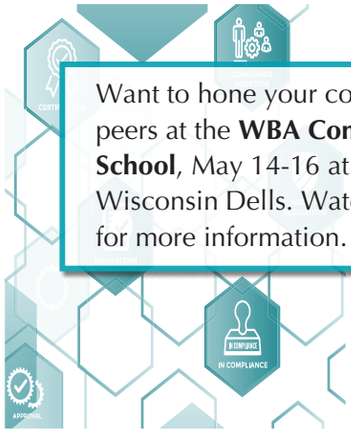

Want to hone your compliance skills? Join your peers at the **WBA Compliance & Risk Management School**, May 14-16 at the Wintergreen Resort in Wisconsin Dells. Watch *www.wisbank.com/events* for more information.

CRE Lending

(continued from p. 1)

Post-recession, many banks attempted to diversify into C&I lending, but ultimately those areas require special skillsets and infrastructure that most community banks didn't have, and competition for those C&I deals was more significant than many banks expected, Hahn explained. "Many banks had the same thought process at the same time," he said. **Paul Kohler**, president and CEO of Charter Bank, Eau Claire, says that changing demographics are a factor, as well. "We see more rentals and homeownership is declining," he explained. "More people are renting, so we're financing more multi-family projects in our community." Kohler also says that where people want to live is shifting along with the demographics. "A lot more people want to be in or close to downtown," he said, which adds to the demand for multi-family housing.

With all of these pressures pushing bank CRE lending thresholds higher, effective risk management practices have never been more critical.

Constructing a System for CRE Risk Management

Five tactics to mitigate risk as concentrations rise

More people are renting, so we're seeing more multi-family projects in our community.

"It's a very competitive environment, and any time it's very competitive, institutions make decisions they might not otherwise make," said Hahn. "Banks need to make sure if they're doing something they're less comfortable with, there's a corresponding increase in their credit risk management." Below are five tactics to consider implementing at your bank, if you haven't already.

1. Understand and embrace your bank's uniqueness.

When it comes to your concentration thresholds, loan policies and procedures, and customer/client traits, every bank is unique. Copy/pasting regulatory standards is not necessarily the best approach for your particular institution, though they are valuable starting points. "The conversation always starts with strong policies, procedures, and underwriting criteria," said Hahn. "Most institutions have those, but they need to be tailored to the specific loan types the bank is making now." He recommends tailoring the bank's internal guidelines to address the specific risks of the current loan portfolio and growth plan. It is important for banks to incorporate their depth of relationship with their customers into their guidelines, as well. "One thing about community banking is we know our borrowers," Kohler said. "This is just one piece of their financial picture. Part of the risk management is knowing your customer." For example, documenting that the bank knows a CRE loan applicant has diversified business holdings in other sectors and a strong knowledge of the industry. That information may or may not be articulated during the application process, but is helpful in measuring risk.

2. Ensure useful reporting.

Long gone are the days where bank management heaped information on the board when discussing concentration risks. Today, it is vital to deliver specific, useful information—quality over quantity. "Ultimately, you want discussions at the Board and committee level about where you're increasing your risk exposure," said Hahn. "Depending on the type of lending that's happening, there's a lot of different data you could be monitoring." For example, in the multi-family space occupancy rates and average rents are important. Key data points to consider are those that the bank uses in its underwriting decisions. To effectively communicate that data, many banks are developing concise dashboard reports for the board and management. "It's incumbent upon the board to push management to articulate their case and really understand the risk the bank is taking on," Hahn explained. "Ultimately, they're the ones charged with governance, so they need to be aware of what's in the portfolio,

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CRE Lending

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Use stress-testing activities as a tool to aid decision-making rather than a siloed activity to check a box.

know what's being done to manage the risk, and understand that they have the ability to effectuate change as needed."

Bank management should also consider that their directors may have direct knowledge of the bank's commercial clients, as well. "With having a local board, they often know the customer," Kohler pointed out. "It's about keeping them informed and being transparent." Kohler says the bank reviews and reports on its concentrations on a quarterly basis, paying more attention to the trends than the dollar amounts. "There are regulatory requirements, but we're looking at the trend from quarter to quarter and report that to the board," he said. "We talk extensively about the trends."

The way management monitors and reports on concentration trends is also very important. One strategy some banks employ is to subdivide their concentrations into sub-concentrations; common categories include property type, amortization structure, geography, and payment history. While this strategy can be helpful in certain circumstances, bank management should ensure that it isn't over-utilized. "You could subdivide down to the individual loan level, and that won't fly," said Hahn. "Understand the elements you can point to that truly impact the risk level of the loans. Make your own determination into what the differing risk profiles are."

3. Link stress test results to strategy decisions.

Since you need to perform stress tests anyway, leverage those results and the scenarios you input to help guide the bank's lending strategy. "Regardless of the framework or methodology you're using for stress testing, link the results to the portfolio strategy decisions you're making," Hahn advised. "Use those stress testing activities as a tool to aid decision-making rather than a siloed activity to check a box." This practice can reveal growth opportunities as well as potential challenges.

4. Conduct a regular independent loan review.

Independent loan reviews provide management with valuable information on concentration trends, loan structure, policy exceptions, and other data points key to effectively monitoring risk. According to Hahn, it also shows where the bank may be stretching either the expertise of its staff or its available capital. Whether the review is performed by an independent party internally or via a third-party firm, it should be conducted at least annually.

5. Watch for red flags.

It's obvious, but monitoring areas of concentration for key warning signs is a critical component of your risk management system. So obvious, in fact, that sometimes these flags aren't documented in the loan policies and procedures or communicated clearly to lending staff. One common red flag is "any significant growth in unfamiliar property types or niche lending areas where you don't have specialized staff knowledge or policy and procedures," said Hahn, who also cautions banks to ensure they have not only the front-end expertise to make the "go, no-go" decision on a loan, but also the back office expertise to process and administer that loan.

Other common red flags are found in the loan's structure. One is long-term interest-only requests, especially if they don't include significant equity contributions. "Those indicate a potentially longer stabilization period," said Hahn. "You want that to match up with what the appraisal says." Another is extended amortization requests (especially beyond 25 years) and requests for non-recourse structures, which limit the bank's ability to collect if the borrower defaults.

Management must also carefully monitor the bank's capital ratios in terms of concentration thresholds. "If there's a large increase, we'll look closer," Kohler said. While it doesn't necessarily mean the loan can't be made, a significant spike indicates a need for close attention. Loan concentrations are not inherently bad, but the bank must pay attention to the dynamics in its local markets and lending niche. "Different banks have different niches, so they may have more of a concentration in their specialty," Kohler said. "We have a pretty diverse economy in Eau Claire, so that helps. As a community banker, you get to see what you're doing in your community."

Seitz is WBA operations manager and senior writer.

RSM US LLP is a WBA Bronze Associate Member.

Compliance Playbook

(continued from p. 25)

bank's annual compliance risk assessment. "Most banks should be—and many already are—performing an annual compliance risk assessment to help them identify their priorities," Wier explained. "When you know your high-risk areas, you can focus your resources there rather than spending time and money on low-risk areas." Take into account the Board's risk appetite and areas that could cause consumer harm when determining the bank's specific areas of focus. This often includes advertising, disclosures, and fees. Other common areas of focus are new or changed regulations and rules with large penalties attached.

Build a Culture of Compliance

A culture of compliance has many direct and indirect benefits to the bank's bottom line, but building and sustaining one can be difficult. Key components include efficient staff training, a regulatory change management system, and a proactive attitude toward compliance. "Training of frontline and backroom staff is essential for success," said Gagliano. "Their knowledge of compliance prepares them to help educate customers, making them easy to do business with while building trusted relationships." Banks can stretch their training resources by carefully identifying which employees need training on specific topics. For example, by identifying the two frontline staff who need additional BSA training rather than spending the time and money to train all 20 people in that area.

Establishing an effective regulatory change management system in addition to the bank's compliance management system is also critical, according to Wier. "We always talk about compliance management systems, but having a process to not miss anything and ensure that everything gets communicated to all affected parties is important." According to Wier, a sound regulatory change management system utilizes a committee approach to identify all operations areas that will be impacted and includes a formalized process with a timeline and targeted deadlines. Internal communication is essential, as well, particularly when the compliance department discovers an issue with the bank's current procedures. "If you review a finding, don't sit on it until you go to committee at the end of the quarter," said Nolan. "The board of directors and senior management can't change yesterday, so you have to tell them what happened and what you're doing to correct it immediately."

> *Ultimately, the best way to turn compliance pressure into a benefit is an attitude more than a strategy.*

Finally, banks with a strong compliance culture tend to take a proactive approach. "In today's environment, it is important that compliance not sit back and wait to be approached," said Jesberger. "Compliance needs to be proactively approaching management and the business units and showing them where we can help." For example, Nolan says he works with the bank's marketing staff to get involved in campaigns during the "napkin stage," rather than when the ad is ready to print. That proactive approach gives the bank a competitive edge, according to Jesberger. "By involving compliance at the front end of a process, we can provide a competitive advantage for the bank by providing insight, consideration, and direction throughout the development process and thus expedite the delivery of the product or initiative that will deliver the desired return for the bank," he said.

Disagree Constructively

A third strategy for turning compliance into a competitive advantage is to strive for constructive conversations with regulators, especially when disagreements arise. With all of the recent regulatory changes, times when bankers and examiners interpret a rule differently have become more common. Those differences can be a positive—or at least less of a negative—if the bank takes the time to show their work and keep the conversation respectful rather than defensive. "Stay calm and stick to the facts," Gagliano advised. "Seek to understand the examiner's concern and then do your research to prepare your response. Supporting documentation of how you came to your interpretation will be especially important in defending your bank's position." The bank's compliance management system should include that documentation, including the thought process, internal discussions, and the guidance of any outside resources used, according to Jesberger. "If the examiner can understand how you came to your conclusions, I believe that will make a marked difference on how the tone of the conversation progresses from there, whether that is to affirm the bank's reasoning or to gently redirect the bank in another direction," he said.

In addition to the appropriate documentation, the tone of the conversation is also key. Nolan, who was an examiner for nine years, says the best thing to do is be reasonable and respectful. "Most times, if you can support your logic and they can see how you reached your conclusion, you'll get a better result," he explained. "They might still write you up, but the tone will be more favorable." According to one banker who experienced this during a recent examination, one of the most effective strategies for constructive disagreements is to have a pre-established relationship with your regulator. When disagreements arise and the bank needs to make changes, build rapport by requesting input from your regulator on those changes. Wier recommends understanding where the regulators are focused and what areas may be in the spotlight. "Being well-prepared can make the difference between satisfying the examiner's questions or requiring additional follow-up and scrutiny," she said.

Ultimately, the best way to turn compliance pressure into a benefit is an attitude more than a strategy. "We can demonstrate our value by utilizing our risk assessments and internal monitoring to help the bank identify opportunities for growth, either through showing how the existing controls may be limiting growth prospects in one area, or to illustrate where a framework exists that enables expansion in another," Jesberger explained. When compliance becomes the "gotcha" department, those opportunities for collaboration and growth dwindle. "I view compliance as a resource, not a hindrance," said Nolan. "To make compliance work, you have to treat it as a positive. It's a *corrective action*, which means we're changing something to be right."

Seitz is WBA operations manager and senior writer.

CrossCheck Compliance LLC is a WBA Associate Member.

Time to Renew Your CEOnly/CFOnly Membership

Exclusive network provides unique benefits for banking leaders

By Daryll J. Lund

Association Update

Daryll J. Lund

Now is the time to renew or begin your membership in the CEOnly and CFOnly Networks so you can enjoy the membership services provided, especially networking and idea-sharing with your Wisconsin banker peers—nearly 100 executives currently participate!

In 2018, WBA built on the strong foundation of these two networks. We've shared the responses to over 100 questions from participants through the Question & Answer Service and hosted three successful peer-to-peer meetings in Wausau, Wisconsin Dells, and Madison. We believe the networking and information-sharing that is foundational to the CEOnly and CFOnly Networks will become even more valuable to you as the banking industry continues to experience unprecedented changes.

CEOnly™ | CFOnly™

» The first meeting: March 8 · Glacier Canyon Lodge at the Wilderness · Wisconsin Dells. Join or register to attend at *www.wisbank.com/CEO*.

You can expect the same excellent value in 2019! This year, network members are invited to three complimentary networking events *(listed below)*.

Each event features special guest speakers who share their industry expertise in confidential, banker-only networking sessions. In addition, network members have full access to the Q&A service, which provides a confidential forum for asking peer questions. Network members submit their questions to WBA via email, and WBA then shares those questions anonymously with the network. WBA compiles all responses anonymously and distributes them to the network via email.

Network membership is on a calendar year basis, starting Jan. 1, 2019, so now is the time to join or renew!

For more information about the networks or to purchase your membership for 2019, please visit *www.wisbank.com/CEO*. If you have any questions, please don't hesitate to contact me at 608-441-1203 or *dlund@wisbank.com*.

Lund is WBA executive vice president – chief of staff.

» WBA CEOnly|CFOnly Network meetings are scheduled for: March 8 | Wisconsin Dells · June 7 | Wausau · October 11 | Madison

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:

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Economy

Q3 Trends Now Available on Banconomics

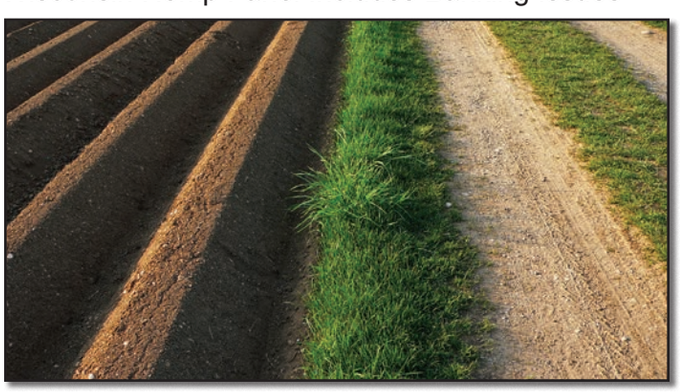
BANCONOMICS®

An interactive infographic displaying banking trends based on the latest FDIC quarterly numbers is now available on WBA's Banconomics website, which WBA developed to provide financial and economic data for Wisconsin's bankers. The infographic provides visual comparisons of total deposits, total loans and leases, noncurrent loans and leases, and more. Banconomics also features full Q3 reports, including benchmarks and a breakdown of Wisconsin's industry data from FDIC quarterly call reports categorized by asset quality, liquidity, and profitability. The reports, compiled by CliftonLarsonAllen, specifically list each bank headquartered in Wisconsin and their particular data pulled from the call reports. View the infographic at *www.banconomics.com/articles/wisconsin-3rd-quarter-banking-trends*.

See pg. 13 of this issue for an example of the data that is available online at *www.banconomics.com*.

Agriculture

Wisconsin Hemp Panel Includes Banking Issues



WBA's **Scott Birrenkott** recently participated in a Hemp Workshop hosted by the Wisconsin Farm Bureau Federation. He joined a panel including Senator **Patrick Testin** and Wisconsin Department of Agriculture, Trade and Consumer Protection (DATCP) representatives. The panel fielded questions from both the moderator and attendees with topics ranging from Wisconsin's Industrial Hemp Pilot Program, the future of industrial hemp in Wisconsin both practically and legislatively, and the federal hurdles still facing the industry. Read additional details regarding the conference on WBA's website at *www.wisbank.com/articles/2018/12/wi-hemp-panel-includes-banking-issues*.

For more industry updates like these, sign up to receive the *WBA Executive Letter* ePublication by visiting your profile on *www.wisbank.com (located in the upper-right corner of the screen).*

Industry Image

Who Will Be Your Next Banker?

WBA visits campuses around the state encouraging students to consider internships and careers in the Wisconsin banking industry. The most recent stops on our mission to promote careers in banking were at UW-La Crosse and UW-Stevens Point. Each WBA campus event features a panel of bankers who network and provide industry information to the students. Pictured *(left to right)*: **Jose Vasquez Argueta**, student and moderator; **Jill Breitrick**, Premier Community Bank, Marion; **Amy Staven**, US Bank, Stevens Point; **Nick Inman**, River Cities Bank, Wisconsin Rapids; **Chad Hoerman**, Forward Bank, Marshfield; **Jeff Whitrock**, Pioneer Bank, Auburndale; and **Jedeny Cortes**, student and moderator.

Compliance

National Banks' OCC Exam Fees to Be Cut 10 Percent in 2019

The Office of the Comptroller of the Currency is reducing the semiannual assessments it charges on its regulated banks by 10 percent for 2019, the agency announced in early December. The reduced assessment is in response to "cost savings" at the OCC, and its projected costs and revenue next year, the OCC said in its bulletin. The agency estimates it will lower assessments collected from banks by more than $90 million next year.

Read OCC Bulletin 2018-129 here: *https://occ.gov/news-issuances/news-releases/2018/nr-occ-2018-129.html*.

Bankers Marketplace

HELP WANTED

Vice President – Business Banker

At Citizens Bank we help people, businesses, and communities achieve financial success to build a better future! We are currently seeking an experienced Vice President – Business Banker to join our team in Southeastern Wisconsin. Responsibilities include developing and maintaining long-term customer relationships that generate both loans and deposits, negotiating and effectively presenting commercial loan terms consistent with internal credit standards, cross-selling all relevant products and services, and effectively managing your portfolio. At least 5+ years of commercial lending experience required. To apply please visit *www.citizenbank.com* or email your resume to *cbmjobs@citizenbank.com*.

Retail Banking Manager

Paper City Savings, a $160 million institution headquartered in Wisconsin Rapids, is seeking a Retail Banking Manager. This position is responsible for leadership and management of the Retail Banking Department consistent with Association growth, profitability, and customer service goals. Successful candidates will have a sales and customer service background in the banking industry with management and supervisory experience. Candidate must possess excellent written and verbal communication skills. Please submit a cover letter and resume with salary requirements to: Pam Kuhn, Paper City Savings, 4200 8th Street South, Wisconsin Rapids, WI 54494 or email **Pam Kuhn**, HR Manager at *pkuhn@papercitysavings.com*.

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