

April 2009

In Touch
Community Bankers
Association of Kansas

Community Banking...

A Rocky Mountain High

INSIDE:

-
- Asset/Liability Management and Bank Performance •
 - Economic Woes—Not All Bad News for Community Banks •



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CBA Committee Volunteers 2009-2010

CBA remains *directed by the members we serve*. The committee system provides an avenue for historic perspective, evaluating the current status of our programs and political positions as well as a seed bed for new ideas. **Joining a committee** is one of the best ways to help direct the course of your association's activities and get to know other bank members.

Any member bank employee can volunteer; all you need is a willingness to get involved. There are many opportunities to lend your interest and knowledge to one or more of the CBA committees. Contact the CBA office at 1-800-258-4589 or complete and return the sign up form coming to your mail box soon. 

- Community Bankers PAC
- Legislative/Regulation
- Membership/Marketing
- Convention
- Education

Anniversaries

Congratulations to the following banks celebrating April anniversaries as chartered institutions!

- 162 Years**
BankHaven – Haven
- 122 Years**
Citizens National Bank – Arlington
- 119 Years**
United Bank & Trust – Marysville
- 107 Years**
First State Bank – Norton
- 106 Years**
Farmers State Bank – Wathena
- 103 Years**
Fowler State Bank – Fowler
- 102 Years**
The Walton State Bank – Walton
- 100 Years**
United National Bank – Natoma

Announcements

Patricia Fells has retired as vice president of The First National Bank of Hope.

Brett Wegeng has joined Andover State Bank, as senior vice president-commercial lending.

Kanza Bank, Kingman, has promoted Jan Lanie to executive vice president of retail banking and operations and Barry Purdy to executive vice president and chief credit officer.

Legacy Bank, Colwich, has promoted Steve Gegen to senior vice president-commercial lending, Jim Walker to senior vice president-finance department and Elizabeth Wager to senior vice president-deposit operations/technology.

Bankers' Bank of Kansas has announced that Barnabas Horton, CEO of Farmers Bank & Trust, Atwood and Tim Ohlde, president of Elk State Bank, Clyde have joined the organizations 14 member board.

TCK Trust & Financial Advisors recently relocated to 5200 Bob Billings Parkway, Suite 201, Lawrence.

J. Michael Woody, Sr.


Michael will be a keynote speaker at the CBA Annual Convention held at the Omni Interlocken Resort in Broomfield, Colorado, July 8-11, 2009.



MICHAEL WOODY HAS BEEN A GRADUATE SCHOOL OF BANKING IN COLORADO (GSBC) FACULTY MEMBER FOR MORE THAN 20 YEARS! MR. WOODY IS THE OWNER AND PRINCIPAL OF J. MICHAEL

Woody, Inc., offering consulting to banks, teaching and training, and expert witness services. Previously, he was the President, CEO and Director for many banks in Tennessee and Oklahoma. Mr. Woody has represented over 120 banking clients in 39 states in a wide scope of activity including strategic planning, profit maximization, work out strategies and tactics, regulatory interface, staffing, policies and procedures, and establishment of incentive compensation plans.

In addition, Mr. Woody has held faculty positions at a number of banking schools and Universities and makes over 80 presentations a year for banking associations. Mr. Woody has conducted bank training in Russia, Slovakia, the Czech Republic, Australia, and Singapore.

To make your reservations contact the Omni Interlocken Resort at (800) 843-6664 and remember to mention you are with the CBA room block. The room block consists of single/double hotel guest rooms starting at \$169/night. You can find out more information when you visit them online at www.omnihotels.com. 

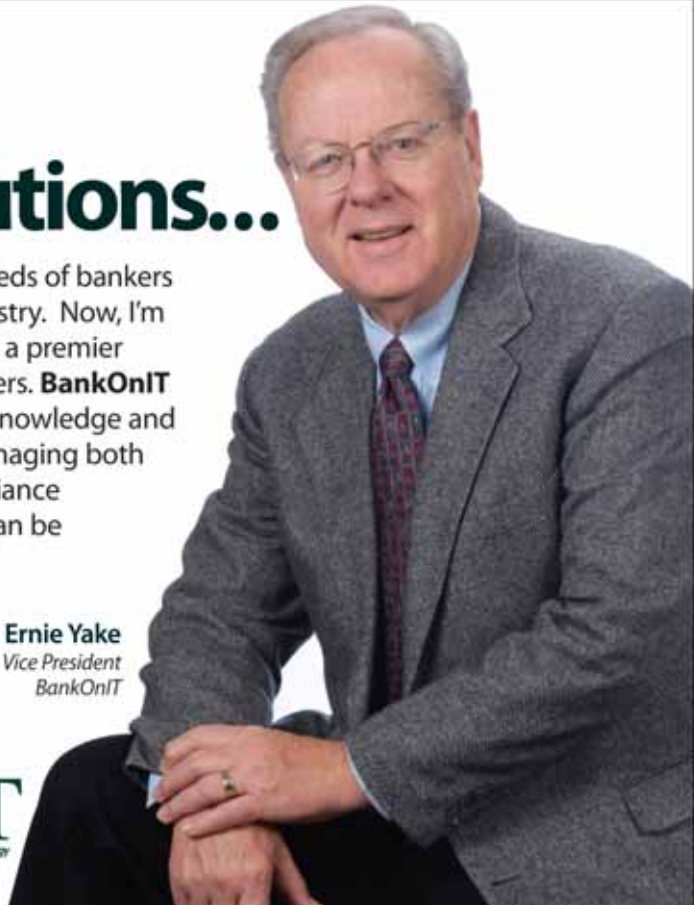
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Vice President
BankOnIT

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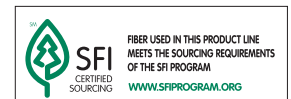
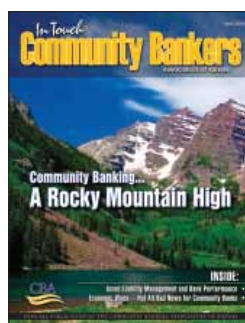
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On the Cover:
Community Banking... A Rocky Mountain High


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Chairman's Golf Classic

May 18,
2009



CBA Immediate Past Chairman Pat Kerschen invites you to join him at the 2009 Annual Chairman's Golf Classic. For the past 18 years, CBA has held the Chairman's Golf Classic to raise funds for CBA's Political Action Committee (PAC) Fund. This year's tournament is Monday, May 18th at the Sand Creek Station Golf Course in Newton, Kansas. Proceeds raised from the golf tournament help assist CBA in the effort to keep those who are friendly to community banking as our elected leaders. This event is packed full of camaraderie, entertainment, networking and lots of fun as well as supporting your association's PAC fund. For more information call the CBA office at (800) 258-4589. 

UPCOMING EDUCATION

April

- 2 Your Bank's Risk Assessment Responsibilities – Tele/Web Seminar
- 2-3 Credit Analysis – ICBA Seminar – Kansas City, MO
- 6 Ag Lending Issues & Challenges 2009 – Tele/Web Seminar
- 7 The IT Perspective in Business Continuity Planning: What the Regulators Want – Tele/Web Seminar
- 9 Loan Grading – Tele/Web Seminar
- 13 Robbery Prevention – CBA Seminar by Teeselink – McPherson
- 14 OFAC: Risk, Compliance, Due Diligence & Enforcement – Tele/Web Seminar
- 14 Robbery Prevention – CBA Seminar by Teeselink – Junction City
- 16 Bringing It to the Board: Procedures, Subcommittees, Approval Levels – Tele/Web Seminar
- 20-21 Bank Officer Call Training – ICBA Seminar – Kansas City, MO
- 21 The Legal Side of Vendor Management – Tele/Web Seminar
- 23 Rule Changes on International ACH Transactions (IATs): Deadline Sept 18, 2009 – Tele/Web Seminar
- 26-May 1 Auditing Institute Week I – ICBA Seminar – Kansas City, MO
- 28 Regulatory Enforcement – Tele/Web Seminar
- 30 Managing Liquidity Risk: Meeting Examiner Expectations – Tele/Web Seminar

May

- 3-8 Auditing Institute Week II – ICBA Seminar – Kansas City, MO
- 5 Your Customer Has Filed Bankruptcy, Now What? – Tele/Web Seminar
- 7 Analyzing Customer Data for Retention & Growth – Tele/Web Seminar
- 13 New RESPA Rules: What You Need To Know Now! – Tele/Web Seminar
- 11-15 Community Bank IT Institute – ICBA Seminar – Kansas City, MO
- 12 Opening Accounts for Non Profit Organizations – Tele/Web Seminar
- 14 Your Bank's IRS Information Returns – What to Report & Ways to Ensure Accuracy – Tele/Web Seminar
- 18 Robbery Prevention – CBA Seminar by Teeselink – Parsons
- 19 Director Series: Directors & Key Committee – Tele/Web Seminar
- 19 Robbery Prevention – CBA Seminar by Teeselink – Topeka
- 21 Frontline Skillworks: Compliance Update – Tele/Web Seminar
- 27 Required Compliance for Real Estate Secured Consumer Loans – Tele/Web Seminar
- 28 Paper Checks, Remote Capture, Wires & Electronic Transfers: Who is Liable? – Tele/Web Seminar

For more information about these seminars contact Shawna Ray at the CBA office 800-258-4589 or by e-mail at shawna@cbak.com.

2009 Legislative Reception



Economic Outlook 2009

Seminar Information

These are live seminars in which attendance is limited to provide as much one-on-one and "Q&A" time as needed. The level of learning for this seminar is intermediate to advanced. Basic knowledge of finance and banking is recommended. There are no costs for these seminars.

An In-depth Program

Designed to provide community bankers with the knowledge necessary to help build and manage high performing investment portfolios utilizing the latest risk management systems. Seminar attendees should leave with a better understanding of the following topics:

- written investment strategies
- interest rate risk management
- asset/liability management
- effective use of security analytics
- product evaluation and selection
- regulatory compliance

Who Should Attend

The community bank CEO, CFO, Investment Officer, Board member or any person directly or indirectly responsible for bank financial management functions.

CPE credits will be earned for your attendance.



April 24 – Lost Pines, TX

Hyatt Regency Lost Pines Resort

May 5 – Bismarck, ND

Radisson Hotel

May 6 – Fargo, ND

Ramada Plaza Suites

May 15 – Wichita, KS

Hyatt Regency

July 10 – Rhodes, IA

Harvester Golf Club

July 27 – Bolingbrook, IL

Bolingbrook Golf Club

August 3 – Edwardsville, IL

Sunset Hills Country Club

October 2 – Oklahoma City, OK

Skirvin Hilton

30 2009
CELEBRATING
THIRTY YEARS





Asset/Liability Management and Bank Performance

By Jeffrey F. Caughron, Associate Partner, The Baker Group



A Focus on the Total Bank

It has been over a quarter of a century since Dr. James V. Baker, Jr. published his original work on Asset/Liability Management. Since that time, significant changes have taken place in the way banks operate. There has, for example, been a sharp acceleration in the pace of financial innovation which has altered the way we lend money, fund those loans, and manage investments. Increased competition, along with sophisticated financial products and complex economic conditions, has conspired to increase significantly the challenges facing bank management.

Confronted with these realities, managers who have continued to look at the bank along functional or product lines are now seeing the need to take a step back and view their bank as a complex, dynamic system. Bank management increasingly sees the need to return to an approach that focuses on the total bank, and that approach is best applied through the techniques of Asset/Liability Management.

Risk Identification: The Interplay of Repricing Balances and Changing Rates

Each bank is unique in its characteristics and the type of business it

does. Some are loan driven metropolitan banks that face strong competition for deposits. Others do business in agricultural communities where loan demand and deposit growth are driven by seasonal factors. The one thing they all have in common is the fact that they operate in the same general interest rate environment at any given point in time. If the yield curve is steep, margins can be expected to be healthy. If the yield curve is inverted, liquidity becomes a problem for all. And since the interest rate landscape is the same for all banks, the type of risk management tools should be the same as well. That is not to say that the level of sophistication should not vary with the complexity of the balance sheet, just that the reporting system should meet certain basic needs.

Interest rate risk exposures are largely determined by the interplay of three subcategories of risk: repricing risk, yield curve risk, and options risk. Repricing risk results from differences in the timing of rate changes and the timing of cash flows that are built into the pricing and maturity structure of a bank's balance sheet. For most banks, repricing risk is the most visible source of interest rate risk and is measured by comparing the volume of a bank's assets that mature or reprice within a given time period with the volume of liabilities that do so.

Yield Curve Risk

The nature of banking is such that banks necessarily take repricing risk in their balance sheet structure in an attempt to earn income. Since the yield curve is usually upward-sloping (long-term rates are higher than short-term rates), banks generally earn a positive spread by funding long-term assets with short-term liabilities. In other words, they borrow short and lend (or invest) long. The shape of the yield

Asset/Liability
— Continued on page 10

new **tools.**

new **peace.**

extra **sleep.**



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curve changes as the relationship between short-term rates and long-term rates fluctuates. These relative rate changes cause the yield curve to flatten, steepen, or become negatively sloped (inverted) during an interest rate cycle. Yield curve variation can exacerbate the risk of a bank's position by magnifying the effect of maturity mismatches. To complicate things further, these maturity mismatches are often uncertain and difficult to predict due to Options Risk.

Options Risk

Options Risk has to do with the uncertainty of cash flows due to various types of options that are attached to or embedded within some financial instruments. These options may alter the level and timing of cash flows and create an unpredictable liquidity situation for the bank. On the asset side, prepayment options are often the most common embedded option. When rates decline, customers will prepay their loans, and the bank's asset maturities will shorten just when the bank would like to be extending them. And when rates rise, customers will keep their mortgages, making it difficult for the bank to shorten asset maturities just when it would like to be doing so. The same dynamic is at work with mortgage-backed securities. Bonds with explicit call options attached to them have the same sort of cash flow uncertainty. In any case, options risk can play havoc with Asset/Liability Management, and this underscores the need for robust analytics and reporting.

Modeling Interest Rate Behavior and Bank Performance

Even today, many Asset/Liability Management models ignore important aspects of modern balance sheet dynamics. For example, some use the simplistic assumption that interest rates all move together in parallel fashion. Often, "rate shock" simulations are at times both inadequate and misleading since they make no provision for flattening and/or steepening of the yield curve. After all, what is it that banks do? They borrow short and lend long, earning whatever margin they can on the difference between their cost of funds and their yield on earning assets. If we assume that the relationship between short and long rates never changes, then we aren't really "shocking" the balance sheet much at all.

Another potential pitfall is the miscalculation (or noncalculation) of time lags and sensitivities for different administered rates such as loans and deposits whose rates are set by bank management. Subsequent to a change in market (Treasury) rates, it may be a month or more before loan pricing decisions are enacted that cause an adjustment in the bank's internal rates. Even then, the new rate may not fully reflect what has happened to key Treasury rates. Similarly, deposit rates are not instantly adjusted to changes in T-Bill yields. Only when a trend has been decidedly established will the liabilities be adjusted. These lags and "shift sensitivities" need to be modeled properly in order to give an accurate picture of interest rate risk.

We can't make good decisions about investing, pricing deposits, structuring loans, etc without understanding the unique dynamics of our bank's particular balance sheet. Insofar as it is possible, we must model the expected behavior of repricing balances, changes in rate structure, and uncertain cash flows under different market conditions and yield curve scenarios. Every community bank is unique.

Options risk can play havoc with Asset/Liability Management, and this underscores the need for robust analytics and reporting.

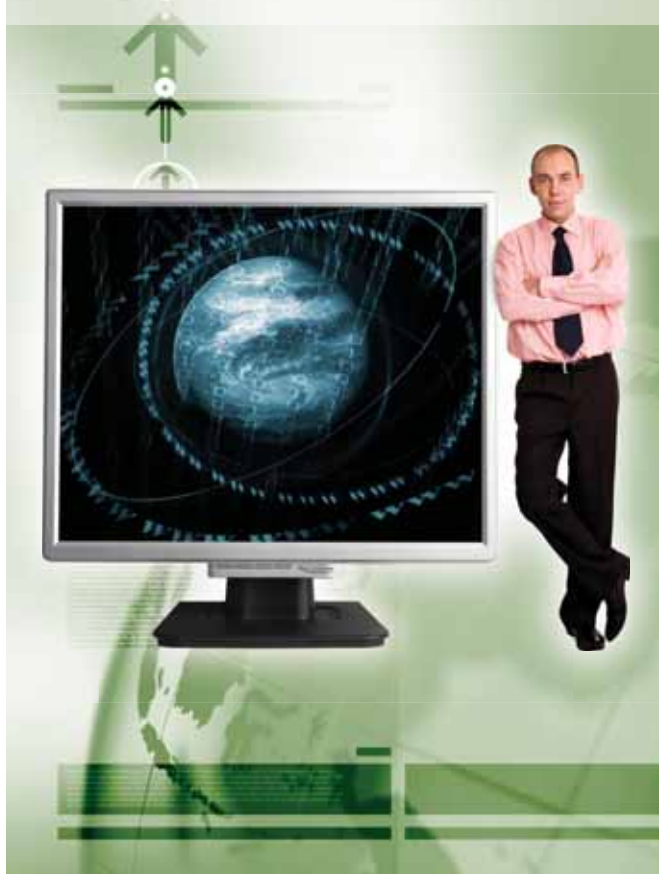


Each one is affected by specific demographics and regional economic characteristics. Depositors and borrowers will vary in their preferences, sensitivities, and behavior. All of these differences must be modeled as accurately as possible. We have always felt that there is no cookie cutter approach that works for A/L management. For interest rate risk to be managed properly, every community bank must be modeled in a way that makes sense for their unique business. That, however, requires the right tools and the right way of thinking about interest rate risk.

Information herein is believed to be reliable but The Baker Group does not guarantee its completeness or accuracy. Opinions constitute our judgment and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

How to Reduce Business Interruptions and Maximize Your Network Availability

By Dean Lemons, Managing Director, RSM McGladrey Inc



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WHAT IS THE STATE OF YOUR BANK'S DISASTER RECOVERY PLAN? BELOW ARE TWO TELLING COMMENTS I HAVE HEARD RECENTLY:

"It is very difficult to test our disaster recovery plan because of all the extra hardware, configuration, and special processes."

"In our last disaster recovery test we missed our recovery objectives by days."

What is your institution's tolerance for downtime?

In order to be successful, businesses must weigh the costs of planned and unplanned downtime. The U.S. Department

of Labor has estimated that over 40 percent of businesses will never reopen after a disaster. A natural disaster as a single incident (roughly three percent of all business interruptions) may have a more devastating impact on businesses, but the combined effects of human error and technical failure result in more unplanned downtime.

Many companies are unaware of the actual uptime measurement of their IT environment, or the threats exposed that could result in unplanned downtime? This is important as 99 percent of uptime or "2-nines" translates to 3.65 days of downtime per year. When businesses approach "5-nines," the level of high availability increases and the resulting associated incremental costs become substantial. High availability measures the extent to which IT is accessible at a pre-determined level of performance by everyone requiring access to complete a business related task.

It is obvious that banks do not operate in a perfect world of unlimited resources or uncomplicated IT situations. To most effectively improve availability, business must address the following:

- ▶ Establish technology investment priorities
- ▶ Invest for optimal availability
- ▶ Define the critical role dependencies play
- ▶ Identify relevant solutions

Setting priorities begin by first identifying and classifying business processes and services without calculating technology into the equation. This encompasses all areas including corresponding business processes that support those services.

A cross representation of management in a coordinated effort with key personnel and the IT department should identify priority processes and services within each department. This decision making process cannot be the sole responsibility of IT personnel.

In many organizations, priority processes and services identified tend to focus on the core system. As a result, redundancy efforts are too narrowly focused and do not take all necessary technology dependencies into consideration.

Next, each infrastructure component should be cross-referenced with all classified processes and services and given a dependency score. Each component should then be analyzed to ascertain its relative potential for failure. This provides for a risk-based approach to reducing downtime by ensuring that limited dollars are spent effectively.

After identifying and classifying critical business processes and services as well as corresponding technology dependencies, an institution can begin to prioritize limited budget dollars with regard to specific availability threats.

Solutions that may be utilized to supplement existing technology to improve availability include virtual private networking (VPN), point-to-point or point-to-multi-point wireless wide area Network, replication, storage area network (SAN), direct attached storage (DAS) and server virtualization.

It is critical that the up front planning taken in a bank takes into consideration IT best practices, such application/service criticality, hardware dependencies of business processes and business goals—in addition to disaster recovery objectives. Focusing on these needs will help to reduce business interruptions, maximize your network availability and yield the greatest possible return on investment for your organization.

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To learn more, visit www.rsmmgladrey.com.



Dean Lemons is a managing director in RSM McGladrey's information technology practice. He can be reached at dean.lemons@rsmi.com.

CBA Welcomes New Associate Member

McCoy Myers & Associates



MCCOY MYERS & ASSOCIATES (MCM) IS A BANK SERVICE CORPORATION THAT PROVIDES A COMPREHENSIVE AND INTEGRATED SYSTEM OF BANKING software for community banks. Headquartered in Amarillo, Texas, McM provides in-house and outsourcing services to one out of every six banks in Texas. With the introduction of Meridian, the new client/server, windows (NT) based version of the McCoy Myers software, over 140 banks throughout the southwest will be a step ahead of their competitors.

This in-house or service bureau solutions are designed by bankers for bankers.

21st Annual Ag Conference

April 16-17, 2009

CBA joins the Independent Banker of Colorado (IBC), Nebraska Independent Community Bankers (NIBC), and the Independent Community Bankers of America (ICBA) in co-sponsoring the 21st Annual Ag Conference. Industry experts will present topics of interest to agricultural bankers including; agricultural and public policy, invention, innovation, incubation and entrepreneurship as well as federal legislative and farm bill updates. In addition receive updates and forecasts on the grain and cattle markets.

The conference will be held April 16-17, at the Marriott Denver West in Golden, Colo.



IBC Education Foundation

A 501(c)(3) Nonprofit Organization

Economic Woes: Not All Bad News for Community Banks

By Andy Elliott, Senior Vice President of Customer Services, Computer Services, Inc.



This year's economic woes have consumers tightening their seatbelts preparing for possible further declines.

INDUSTRY EXPERTS COMPARE THE ONGOING FINANCIAL CRISIS TO THE GREAT DEPRESSION, AND MANY BANKS ARE receiving the brunt of consumer unease. Not only are money center banks crippled financially, but the reputations of all banks are suffering as well.

The laundry list of reasons explaining this erosion of customer confidence seems obvious. No doubt mergers, bank closings, bankruptcies, and falling stock prices have played a major role, but many consumers report that the way big banks have responded to the crisis has done more to create distress than the crisis itself.

In fact, a recent Gallup poll reports that consumer confidence in US banks dropped from 40% in mid-July to 21% in early November. This dramatic decrease represents one of the lowest levels of consumer confidence since Gallup began the poll in April 1979.

So where's the good news in this story?

A recent Nielsen survey reported that consumers are so tired of getting the run around from larger banks that one in five respondents said they were likely to move at least some of their money to another bank in the near future.

That bank could be your bank.

Concerned consumers are turning to their local community banks as a safe haven for their money in a time of economic turmoil. In fact, in October the Independent Community Bankers of America reported that 70% of community banks have noticed an increase in deposits.

These statistics are evidence that now is a good time for you to capitalize on the characteristics that differentiate your bank from money center banks.

Now is the time to take back the customers you may have lost to money center banks.

And now is the time for you to ramp up your marketing efforts and let your customers know that your bank is NOT in trouble.

- Reassure your customers that their deposits are insured.
- Let your current and potential customers know that your bank's conservative lending practices have insulated you from the subprime lending crisis impacting many other banks.
- Remind them that community banks are known for their customer service; you are always available to answer questions and provide information about your bank's financial condition.
- Provide customers with information on your corporate governance policies. Your integrity and values are evident, but assure your customers that your bank isn't going anywhere: you are vested in the communities and people you serve.
- And most importantly, market your products and services. Tell your customers that you offer the same ones that the money center banks offer—plus the quality customer service for which you're famous.

Take advantage of your Web site to reassure current customers AND attract new ones. There's a lot of surfing and shopping happening right now by consumers looking for a good, sound community bank.

Consider an ad in your local or regional newspaper. And depending on your market, you may want to consider advertising on television.

Communication is key, so talk to your current customers frequently and reach out to new ones.

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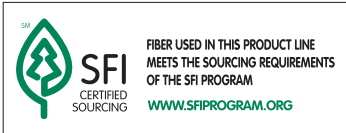
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“Our electronic payments are too important to trust to someone who could be our competitor.”

Steve Handke
President & CEO
Union State Bank
Everest, Kansas



Our Difference is You

“Just like in community banking, it’s the ownership that determines the nature of a company. It’s the same way with your EFT network. SHAZAM is member-owned and member-driven. And like my community bank, SHAZAM is fiercely independent. Electronic payments are vital to the future of my bank. Why would I trust that to someone who is also a competitor? I need a business partner who is independently member-owned and -controlled. That’s why I chose SHAZAM.”

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