

In Touch

February 2011

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Community Bankers Association of Kansas

MARKETING WITH A STRATEGY IN MIND



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• Anniversaries •

Congratulations to the banks celebrating February anniversaries as chartered institutions!

125 years

Legacy Bank — Wichita

110 years

Denison State Bank — Holton

110 years

Tampa State Bank — Tampa

98 years

Citizens State Bank — Hugoton

95 years

Pilsen State Bank — Lincolnville

7 years

United Bank & Trust — Marysville

• Announcements •

Citizens Bank of Kansas, N.A., Medicine Lodge, has named Kent Swartz as the new branch president of its Medicine Lodge branch. Swartz, currently a vice president at the branch, will replace Steve Bryan, who retired Dec. 31, 2010.



Swartz

Lorene Smith retired from Home State Bank & Trust in McPherson, Kan., on Feb. 1 after 56 years of service. Smith will be greatly missed by her fellow workers and customers but is wished a happy, healthy retirement.



Smith

The Federal Reserve Bank of Kansas City recently announced the establishment of a Community Depository Institution Advisory Council (CDIAC). Alex Williams, president, Halstead Bank in Halstead, Kan., has been appointed to serve on the council. As a member of the council, Williams will provide input to the bank and its senior management on the economy, lending conditions and other issues.

The board of directors at **Garden Plain State Bank** is pleased to announce that the following employees received promotions in its December board meeting: Mark A. Bahr to executive vice president and Amy L. Hammond to assistant vice president.



Benefit Management, Inc.

Benefit Management, Inc. (BMI) is a third-party administrator that provides high-quality health benefits administration programs to commercial groups nationwide. BMI's goal is to provide cost-savings options to the rising cost of health insurance.

The BMI GAP Plan allows employers to lower their cost, while continuing to offer quality benefits to their employees. With the BMI GAP Plan, employers reduce premium costs by purchasing a higher deductible and providing their employees with a lower deductible. Employers then reimburse the deductible

difference if claims occur. The BMI GAP Plan limits employer exposure with tremendous savings potential. Usually, the employer will save about 60 percent of the initial premium savings. The BMI GAP Plan works in conjunction with many of the currently available health care plans. For more information, contact Dennis Call at 800-290-1368. •



Community Bank Week

APRIL IS COMMUNITY BANKING MONTH! EVERY YEAR CBA DESIGNATES A WEEK TO CELEBRATE THE THINGS THAT MAKE COMMUNITY BANKING GREAT. This year CBA will be celebrating Community Bank Week April 25 - 30, 2011. As a banker, you play a vital role in your community. Participating in community Bank Week gives you the opportunity to point out all that your bank does to benefit your community. Now is the time to begin planning how you will show appreciation to your loyal customers and convey the importance of community banking to the public at large. Plan on joining CBA in celebrating Kansas Community Bank Week.

Director Profile

• Thad Geiger •



HOMETOWN St. Joseph, Mo. (But I am the seventh generation of my family to live in Doniphan County) • **FAVORITE SPORTS TEAM** 1975 Bishop LeBlond Golden Eagles and 1969 Kansas City Chiefs • **FAVORITE MOVIE** *The Searchers* (John Wayne) and *Dances With Wolves* • **BOOK YOU'RE CURRENTLY READING OR JUST FINISHED** "Dakota: A Spiritual Geography" by Kathleen Norris and "Decision Points" by George W. Bush • **HOBBIES** Cattle, corn, soybeans and spoiling my 4.7 grandkids • **FAVORITE QUOTE** "To whom much has been given, much is expected in return" — St. Luke and "Ora et Labora" — motto of St. Benedict • **OTHER** I have been blessed to be surrounded by great people most of my life — family, coaches, teachers and mentors. I don't know why God chose me, but I thank him daily.

Thad Geiger is an east district director for the CBA, and executive vice president and director of Troy State Bank in Troy, Kan.

Q What is your background in banking and with Troy State Bank?

Unlike many of my colleagues, I never aspired for a career in banking. In 1981, I was a young man who had left a teaching and coaching job to start farming on my

own. Interest rates skyrocketed to more than 20 percent, and farming would have been a financial death trap for me. The good men on the board of directors of Union State Bank of Everest Kansas offered me an entry-level job. I spent two years there learning banking. In 1983, Jim Needham contacted me about a position as an officer and lender at the Troy State Bank. That was in the early stages of the rural financial crisis. He promised plenty of work and

did not lie. The bank emerged from the 1980s with a few scars but much stronger. Today, I am the executive vice president and a director of The Troy State Bank. I still don't feel like a banker, just a farm kid who needed a job. I will be forever thankful to the people at Everest and Jim Needham for their support and faith in me.

Q How does the bank work to meet the needs of its community?

Troy State Bank does all it can to meet its community needs. Our loan portfolio includes loans from \$100 to \$1 million. We offer services like an offsite ATM, Internet banking, debit cards and an in-house VISA program. We have a strong real estate loan portfolio, and we work with young families who might not have a large down payment. The bank is a leader in agricultural lending. Also, the officers are leaders in community development efforts. We realize the bank is only as strong as the community it serves. Often we meet customers after hours to conduct banking. You really are on call 24/7.

Q Do you ever have opportunities to work with other community bankers?

We work locally with other community bankers in our efforts to bring about rural community revitalization. We also have a network of friends in community banking we share information with, especially when it comes to questions concerning

by Alex Peak,
Assistant Editor,
BankNews Media

burdensome regulation and compliance issues. I also serve on several committees with other bankers. I would say the establishment of Bankers Bank of Kansas is one of the best examples of community bankers working together, and The Troy State Bank is proud to be an initial stockholder.

Q Is the bank a reflection of its customers? If so, how?

Any bank that is not a reflection of its customers will struggle and certainly is not worthy of being labeled a community bank. Banks should reflect their customers in attitude, approach to life and business. They most definitely will

reflect their customers in commerce and trade. The Troy State Bank is blessed to be in Doniphan County — arguably home to some of the best soil in the state. Therefore, we are a bank with strong ties to agriculture and rural lifestyle. Nonetheless, we are also aware of the changing dynamics in agricultural and rural communities and the bank will evolve to meet those changes.

Q Do you have any predictions for what the new year will be like for the banking industry? Is there anything you would like to see happen in the next year?

This year, 2011, will be a year of

healing in banking. Many banks were hurt in 2010. Interest rate and real estate market stabilization, along with a red-hot farm economy, will help many banks this year. Hopefully, most of the losses in the real estate market have been realized. I would hope the new Congress will recognize the strength and importance of community banking, and revisit the burdensome regulation that has been placed on smaller community banks, especially banks with less than \$100 million in assets. Real estate lending is drying up in some small communities simply because many small banks do not feel comfortable with the regulatory mine field they have to maneuver to make a loan. •

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Member Profile

• Gregg Lewis •



HOMETOWN I grew up in Paola and Osawatometie — seven miles apart — both great small towns with lots of quality, small-town people. • **FAVORITE SPORTS TEAM** KSU and Big 12 (or is that Big 10 now?) • **FAVORITE MOVIE** *Goonies* (I love that great kid adventure!) • **BOOK YOU'RE CURRENTLY READING OR JUST FINISHED** "Wins, Losses and Lessons: An Autobiography By Coach Lou Holtz" — great book! • **HOBBIES** Golf, golf and more golf. • **FAVORITE QUOTE** "Entrepreneurs and their small enterprises are responsible for almost all the economic growth in the United States." — Ronald Reagan

Gregg Lewis is chairman of First Option Bank in Osawatometie, Kan.

Q What is your background in banking and with First Option Bank?

My dad bought this bank in 1970, with assets of \$4 million and five to six employees. I started in 1975 — on the same day we moved into a new building. I was teller for two years, and

learned all the customers' names and account numbers. I got into lending after and was taught to lend the way my dad did it — by shaking the customer's hand. Needless to say, I had a few buddies (whom I had grown up with) burn me pretty quickly! I took over management of the bank in 1996, when my dad retired; I immediately picked two people to help, as all I really knew was lending. Our management team was called TBM (three blind

mice), which has now grown to a 15-person team.

Q The bank has five locations (Osawatometie, Paola, Louisburg, LaCygne and Spring Hill). Are there plans to branch out any more?

No plans for any new branches, but never say never. I do think we are at a perfect size; and, with five locations close together, we know our communities well.

Q How is the bank involved with each location's communities?

We have an incentive program that gets employees involved in many community/school activities, so we're active. (I borrowed that idea from Cy Moyer, Jared's father, while we were sitting at an ICBA convention, getting ready for a breakout session to begin.)

Probably the best thing we've done in all five communities is have a school logo check card, with the mascot of each school by branch. We give a portion of the exchange fees from the signature-based transactions back to each school. Throughout the term of the program (three and a half years), we've given more than \$180,000 to six schools — averaging about \$7,000 a month.

Q What efforts has the bank made to encourage financial literacy among youth?

We've worked with financial literacy for all ages for many years.

by Alex Peak,
Assistant Editor,
BankNews Media

We participate in the Teach Kids to Save Day program, and visit nearly 1,200 students and teachers in our communities each year. We also have all the second-grade classes in Osawatomie visit the bank every year for a tour and to learn about borrowing through a class project. Staff members teach classes in area middle and high schools throughout the year.

Q What do you think is the most important thing the banking industry should be focusing on in 2011?
Continue to take care of our communities, so we'll still have Main Streets.

Q Does the bank have a mission statement? If so, what do you and bank staff do to uphold the mission?

Our mission statement is a bit long, so we've abbreviated it in our vision statement, which is: "We will be the competitive force for financial solutions through outstanding employees and mutually beneficial relationships with our customers and communities."

I've seen one of our competitors get closed, and another sold. So in two of our communities, there are now approximately 115 fewer employees. Those communities

are not being taken care of as they were before. I think the biggest thing I learned from my father in the bank was to take care of your employees and communities.

Q How long have you been a member of the CBA? What events do you find most beneficial?

We've been active members for about 12-13 years. My favorite event is the state convention, where I can see friends and network. I remember Janet and I said after our first convention that we just met a bunch of life-time friends. And that is so true; community bankers are salt of the earth! •

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MARKETING WITH A STRATEGY IN MIND



BY JEFF RENDEL

"The ABC National Bank & Trust Company of Our Town will provide our area with the highest quality financial services while fulfilling our responsibilities to our community."**"**

An actual mission statement from a community bank. Where does marketing fit? How do marketing leaders design and implement strategies that support the reason your bank exists, what your bank believes in and what your bank wants to be?

1. Integrate your marketing plans, initiatives and efforts with objectives of your bank's strategic plan.
2. Promote your plans, initiatives and efforts in a manner that appeals to C-level leaders and/or your bank's board of directors.
3. Inform the stakeholders who benefit from your

strategies about the value your bank provides to their lives, businesses and communities.

Using these steps helps you attain advanced levels of effectiveness, promote a C-level perspective, and ensure marketing programs result in enhanced customer and shareholder value.

Let's explore.

Integrate

Obtain your bank's strategic plan. Familiarize yourself with the mission, vision and values. Most important, consider the strategic objectives for the next one to three years. What does your bank want to be? What will your bank look like? One objective could be to leverage personal and electronic delivery of products and services. Another might state that your bank will return to profitability and sustain this success with a focus on increasing revenue, efficient operations and controlled costs.

Although these are noteworthy statements, how do your marketing programs support your objectives?

Consider Grabill Bank. Its mission is personal: "We're committed to helping people achieve their financial potential through a More Than Money culture." Grabill Bank's strategic purpose is straightforward: "Making a difference for people every day." Its marketing efforts are integrated with its mission and purpose.

Karen Cameron, executive vice president of corporate services for the \$595 million bank in Grabill, Ind., shares how marketing and branding efforts meet the overall mission. "We are putting emphasis on reaching the large percentage of our customers who never visit our branches. We want to determine their changing needs and find solutions. It helps toward building better relationships with our customers, as well as our goals for growth, fee income and relationship-based sales. Strategically, we are tasked with helping people meet their changing financial needs. Operationally, through marketing, we reach out to those we haven't seen for a while."

One strategic objective for a \$1 billion bank in the Pacific Northwest was to increase auto-loan-related profit. A strategy designed by its marketing division suggested developing a web-based conduit for customers to buy and sell used autos by means of a loan from the bank. Research revealed that the strategy would not increase auto-loan-related profit. Research continued to confirm the strategy was a no-go, unable to contribute to and sustain the profit-focused objective. Though innovative, the marketing division determined that, although this service generated

revenue, it did not support the current objective of profit. The marketing division tabled this initiative and moved on to other strategies that provided revenue and profit.

In both cases, these banks considered a program's alignment and integration with their strategic objectives before moving forward.

Promote

You've finished your research on prospective strategies and established that some help achieve a strategic objective. Now it's time to introduce your case to an executive team or the board of directors. As you prepare, keep in mind how your strategy supports a chief objective. Quantify this substantiation. Does income grow? Will market share increase? Do we see new business develop? Is there greater awareness of the bank? Can you provide evidence that your strategies are working or have a trustworthy probability of success?

Dacotah Bank's vision states that "Dacotah Bank will continue to be a high-performing, private company, funding growth through retained earnings and reasonable borrowings." Paul McDonald, vice president of sales and marketing at the \$1.7 billion bank in Aberdeen, S.D., gives details. "Every year, I take the approach that my sales and marketing budget is a line of credit based on a plan and track record of performance. Dacotah Bank deserves a return, and we deliver monthly analytics to validate the investment. While our marketing strategies and steps adjust as we serve our customers, Dacotah Bank's spotlight on 'retained earnings' directs us to make certain that our marketing efforts provide a return on investment."

Jerrad Besch, president of Legend Bank (\$582 million) in Bonham, Texas, uses a similar approach to justify marketing expenses that involve sports entertainment. "Each year, Legend Bank invests in season tickets for the Texas Rangers. Understanding that these tickets help in business development and appreciation, our team completes reports following each game where our bank hosts a current or prospective customer. With these reports, and the subsequent business that follows, our board can observe a direct return on investment in this marketing tactic. This supports an important clause of our mission which is 'to grow and create shareholder value.'"

To support strategies designed to achieve objectives, these banks quantified success in a manner that gave senior leaders confidence in the results.

Inform

Your tactics uphold your strategic plan. Your results back up your goals. You've rolled out, ramped up and fine-tuned

your campaigns. Now it's time to share the news with those who benefit most — your stakeholders. You and your bank benefit in several ways. You acquire feedback from your stakeholders; your stakeholders may direct more of their financial needs toward your bank; and the same stakeholders may wind up as promoters for your bank, referring new business.

Blake Heid is president at First Option Bank (\$190 million) in Osawatomie, Kan., where his bank serves five communities. Community involvement is a strategic objective and tradition. One strategy involves including First Option's customers in the bank's financial support of the communities. First Option offers an individual check card representing six schools that serve First Option's communities.

"This program is a great part of perception management," Heid said. "When a customer uses his school-logged check card (as a credit transaction), First Option gives approximately 50 percent of the interchange income to that customer's neighborhood school. Our customers love that, in the normal course of their banking business, they are supporting the Paola Panthers, Spring Hill Broncos or one of our other four schools. Where most debit-card rewards programs are 'all about me,' — which is fine — our program allows our customers to give to the community when they're at the market, hardware store, or online."

"This is a new program. Since inception, we have contributed more than \$103,000 to the schools. The participating schools are helping to grow the program, and two potential schools have approached the bank about being a part. On the bank's side, we regularly receive and develop new business from this one program. This is a program we want to inform our customers about; they want to hear of it, too."

One California mid-sized bank has a strategic objective to become "THE business bank" in their county. One strategy is to focus their community investment in areas that support the community causes aided by its current and prospective customers.

The CEO explains, "One of our strategic markets is health services. We offer products and services to meet the business and financial needs of the hospital, affiliated practices and professional staff, but we want to serve the community causes of that medical population. Some call this self-serving, but our bank believes it is developing and nurturing relationships. Our bank believes it can strategically invest in our community. We're not uncomfortable

► *"In the end, marketing fits into the global statements for your bank. Every day, leaders create and put into action strategies that support the mission, values, vision and core competencies."* ◀

sharing this with our customers, either. We want them to distinguish that this bank wants to be their partner in all aspects of their enterprise."

By informing those who benefit from these strategies, the banks increased product usage and exhibited a high level of commitment to their customers. Although these cases showcased community strategies, the same results could come from informing customers of the following: increased cash flow by increasing their products and services with your bank, greater levels of efficiency once customers utilize remote deposit capture and cash-management services, or a more rewarding in-branch experience because your bank implemented a sales and leadership program.

In the end, marketing fits into the global statements for your bank. Every day, leaders create and put into action strategies that support the mission, values, vision and core competencies. What adds strategic value to your role as a marketing leader is ensuring your plans integrate with the overall strategy, promoting your plans with C-level information and evidence, and informing those who gain about the benefits from your strategies. Using these steps helps you reach a higher point of professional value, will keep you thinking with an executive point of view, and can ensure your marketing programs increase value for your customers, employees, community and shareholders. •

• ABOUT THE AUTHOR • • • • •



Jeff Rendel is a certified speaking professional and the president of Rising Above Enterprises, Corona, Calif. He can be contacted at jeff.rendel@RisingAboveEnterprises.com.





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TAKE STOCK OF YOUR MUNIS

NEW YEAR CREATES OPPORTUNITIES IN GENERAL MARKET MUNIS

BY JIM REBER

I want to congratulate you. You have resisted the urge to page forward to a topic that you don't think you've read before, and I wouldn't blame you. Articles on the municipal security market have appeared in numerous magazines and trade journals over the last year. This one, I promise, is different.

• ABOUT THE AUTHOR •



Jim Reber is president/CEO of ICBA Securities and can be reached at 800-422-6442 or jreber@icbasecurities.com. ICBA Securities can consult with you concerning a desirable mix of municipal investments. Contact your ICBA securities sales rep for recent strategic insights on municipals.

All the provisions from the main stimulus bill that affect the municipal market were allowed by Congress to lapse at the end of 2010. Virtually every bank in the country could have taken advantage of at least some of the programs, whether or not they were taxable. The broker/dealer and accounting communities rightfully tried to spread the good word to their clients, as the deadlines were well-publicized when the bill became law in 2009.

In spite of this looming drop-dead date, municipal issuers and underwriters operated in a state of suspended disbelief until mid-December of last year. The market was very volatile and fragmented (even more so than normal year-ends) as it attempted to adjust to the new supply that would be dictated by the re-established rules. The result is opportunity for the informed municipal investor. This should include your bank.

Rules Revisited

The segment of the muni market that got the most publicity was the Build America Bonds (BABs). These are taxable securities that are obligations of the state or local government that issued them. Because they don't have a tax-free aspect, they appeal to a wide range of investors, including non-taxable entities. Total BAB volume has been about \$187 billion, which was around 25 percent of new issuance. BABs did not make the cut into the new year, so their supply is now fixed.

In tax-free land, two main provisions are now history. First, banks could treat 2009 and 2010 general market issues as bank-qualified (BQ), up to 2 percent of the bank's assets. These are referred to as "2 percent bonds." The only other requirement is that they are for new projects and, therefore, don't refinance currently outstanding debt.

Also, certain 2009- and 2010-dated issues are exempt from the alternative minimum tax (AMT). These also have restrictions on their use before they can be considered AMT-exempt, so make your broker document their qualifications. If they do meet the requirements, these bonds will shield you from AMT until they mature.

Finally, in a somewhat surprising development, the size cap on a given issue to be bank-qualified retreated back to the 1986 level of \$10 million. The maximum had been raised to \$30 million, and it was hoped the provision could be made permanent. Not so fast, said Congress.

Market Reaction

Recall, too, that December 2010 saw a rapid

rise in Treasury yields. The 10-year note's yield rose nearly 100 basis points since the announcement of QE2, and muni yields have risen, as well. The rise, however, has been anything but uniform.

Traditional BQ issues saw very stable prices. The impending shrinkage of supply caused buyers to step up to the plate. Yields rose only about 70 bps in the 10-year BQ sector in November and December. BABs, on the other hand, saw their 10-year yields climb 135 bps. The realization that the BABs experiment was coming to a swift conclusion caused taxable issuers to load the supply boat.

General market tax-free securities, which are of interest to banks because of the now-expired 2 percent rule, saw yields jump about 150 bps in this period. So as the new year begins, the conclusion that a rational investor should reach is that general market munis and BABs are a bargain, and BQs are less so.

Identify Your Strategy

Please engage your municipal experts when navigating these waters. This includes your tax accountant and research analysts from full-service brokers. The best option will vary from bank to bank, but there are several likely recommendations:

- Use up all your allotment of the 2 percent bonds, especially because general market paper has gotten much more attractive in the last month.
- Buy and hold all the AMT-free paper that the 2 percent rule allows you. They're not making any more of these jewels.
- BABs, which now have a finite supply, should be attractive alternatives for taxable and non-taxable investors alike.
- For you S Corps, don't forget the boost you get out of BQs; thanks to TEFRA, penalties no longer apply to you.

And I do hope you're pleased you chose to read yet another muni column. This one, properly applied, should actually make your bank some money. •

2011 Convention Sponsorship Opportunities

COMMUNITY BANKING... SETTING THE PACE

Attention Vendors: Numerous sponsorship opportunities are available to you at the CBA Annual Convention, but they are only available on a first-come, first-serve basis. If you have any questions, or are interested in a sponsorship contact the CBA office (785)271-1404 or by e-mail yvonna@cbak.com.

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The 33rd Annual CBA Convention will be held at the Sheraton in Overland Park, KS, July 14 - 16, 2011.

Make your room reservations before June 23rd to receive the special rate of \$157 per night, call (866)837-4214.

PHOTO GALLERY
Governor's Inaugural Ball



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2011 CBA Annual Convention

COMMUNITY BANKING... SETTING THE PACE



Tom Parliment, Ph.D.

Tom will be the keynote speaker at the CBA Annual Convention held at the Sheraton in Overland Park, KS, July 14 - 16, 2011.

Dr. Thomas J. Parliment, Chairman & CEO of Parliment Consulting Services, Inc., has served as a commercial banker, investment banker, economist, consultant and educator to the financial services industry over the past four decades. He is noted throughout the business community for his speeches and articles covering a wide range of financial and economic issues. His often humorous and always thought-provoking point of view is regularly enjoyed by readers of his numerous articles and through his frequent public appearances.

To make your reservations contact the Sheraton Hotel at (866)837-4214 and remember to mention you are with the CBA room block. The room block consists of single/double hotel guest rooms starting at \$157/night.

Upcoming Education

Don't forget
to save
the date!

February

3 2011 Anti-Money Laundering & Bank Secrecy Act Compliance Seminar

PBS SEMINAR

8 Monthly Audio Conference

ICBA SEMINAR

9 Certification Quarterly Audio Conference

ICBA SEMINAR

17 Interpreting the Four Most-Misunderstood Tax Forms: D, E, 4797 & 6252

TELE/WEB SEMINAR

22 2011 Anti-Money Laundering & Bank Secrecy Act Compliance Seminar

PBS SEMINAR

23 Preparing for SAFE Mortgage Act Registration & Compliance

TELE/WEB SEMINAR

23 2011 Anti-Money Laundering & Bank Secrecy Act Compliance Seminar

PBS SEMINAR

24 Regulators & Impaired Loans

TELE/WEB SEMINAR

March

3 Implementing the Mortgage Reform & Anti-Predatory Lending Act: Effective July 21, 2011

TELE/WEB SEMINAR

8 Employee Leave: What You Need to Know About Vacation, Jury Duty, Sick Leave & More

TELE/WEB SEMINAR

10 SafeCatch Robbery Suppression & Apprehension

TELE/WEB SEMINAR

15 Mandatory Compliance Training for the Board & Senior Management

TELE/WEB SEMINAR

17 RESPA Now: GFE & HUD-1 Compliance

TELE/WEB SEMINAR

22 Auditing W8, W9 & Backup Withholding

TELE/WEB SEMINAR

24 Trust Documents in Lending

TELE/WEB SEMINAR

28 Call Report Revisions & Updates

TELE/WEB SEMINAR

29 10 Lessons Learned When a Deposit Customer Dies

TELE/WEB SEMINAR

For more information about these seminars, contact the CBA office at 800-258-4589 or info@cbak.com. Or visit www.cbak.com, and click on the Education & Training tab to view seminars by category or by calendar date.

Robbery of Financial Institutions & Armed Robbery Prevention

Presented by Scott Teeselink



Locations

- April 18 – Homewood Suites - Wichita
- April 19 – Cloud County Community College - Concordia
- August 22 – Flint Hills Tech College - Emporia
- August 23 - Highland Hotel – Great Bend
- September 12 – Lamplighter Inn - Pittsburg
- September 13 – Topeka Public Library - Topeka
- October 24 – Hampton Inn – Garden City
- October 25 – Huck – Boyd Center - Phillipsburg

To register contact Erin Oplinger at the CBA office (800)258-4589



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