

In Touch

Official Publication of the Community Bankers Association of Kansas



10

**RISING TIDE —
BONDS TO OWN FOR A RATE
HIKE ENVIRONMENT**

14

**COMING RATE HIKE SHOULD
NUDGE BANKERS TO FOCUS
ON DEPOSIT MANAGEMENT
STRATEGY**



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MY BANK DOES NOT OFFER A MORTGAGE PROGRAM	<input type="checkbox"/> TRUE	<input type="checkbox"/> FALSE
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CONTENTS

Issue 2 | cbak.com



PAGE 6

6

FLOURISH

By Rebeca Romero, ICBA

8

TALENT AMENDMENT EXPANDED — THE MLA RULE

By William J. Showalter, CRCM, CRP Senior Consultant; Young & Associates, Inc.; Kent, Ohio

10

RISING TIDE — BONDS TO OWN FOR A RATE HIKE ENVIRONMENT

By Jim Reber, ICBA Securities

14

COMING RATE HIKE SHOULD NUDGE BANKERS TO FOCUS ON DEPOSIT MANAGEMENT STRATEGY

By Susan Sharbel, Senior Advisor, Advisory Services, and Dave Koch, Director, Advisory Services

19

ANNOUNCEMENTS

IN EVERY ISSUE:

18

ANNIVERSARIES

20

PRODUCTS AND SERVICES REFERENCE LIST

23

UPCOMING WEBINARS



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FLOURISH

BY REBECCA ROMERO, ICBA



"In a world that's so full of noise, the story we're telling is compelling and resonates with our customers, because it's one of work centered around human connection, care and community."

Harvard University education professor Dr. Howard Gardner said, "Stories constitute the single most powerful weapon in a leader's arsenal." As community bankers, we recognize the truth in that statement, because our stories differentiate us, shape public perceptions and allow us to thrive in our roles as community caretakers.

Right now, an unprecedented number of parties want to either be defined as banks or provide banking services. This competition has mounted over the past couple of years, making our unique stories more important than ever before.

Our community-based missions and customer-first relationships distinguish us in today's crowded marketplace. That's why we must keep working at telling the story of who we are. We need to ensure that customers know and understand what makes us different, because what we stand for matters.

Once, when my youngest daughter was about seven years old, a megabank was running a large-scale ad campaign focusing on how it served its "community." When my daughter heard the commercial, a look of horror washed over her face. She turned to me and asked, "How can they say that? They're not a community bank!" My first thought was that she had been listening to too many of my speeches, but at a second pass, I realized it was her experiences with her community bank — fiestas, county fairs, school fairs, holiday gatherings and more — that created that emotional connection for her. Those collective encounters shaped her perception of what it means to be a community bank.

This just proves that it's not only the stories we tell, but the actions behind them, that make the impact. As relationship bankers, we go far beyond our financial offerings to create a connection with our customers. And we need to find a way to amplify that message.

As you read this, I hope you will consider how you can better tell your stories to demonstrate that we are different — not just in words but, more importantly, in deeds.

In a world that's so full of noise, the story we're telling is compelling and resonates with our customers, because it's

one of work centered around human connection, care and community. We have an incredible opportunity to show that what we do matters to the day-to-day workings of the communities we serve. So, let's arm ourselves with the stories of our leadership to help stake a claim on the future of banking. Our customers deserve it. *

Where I'll Be This Month

I'll be wrapping up ICBA LIVE in San Antonio, Texas, and then joining our friends at Independent Bankers Association of Texas (IBAT) for the annual Tour de Texas.



Connect with Rebeca on Twitter
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TALENT AMENDMENT EXPANDED — THE MLA RULE

BY WILLIAM J. SHOWALTER, CRCM, CRP
SENIOR CONSULTANT; YOUNG & ASSOCIATES, INC.



About five years ago, a new rule that impacted financial institution lending to members of the military went into effect. But this one could have been overlooked by financial institutions because it did not come from the traditional bank and thrift regulators. The Department of Defense issued the new rule to implement 2015 changes to the Military Lending Act (MLA), originally known in 2006 as the Talent Amendment.

Some bankers thought they did not make loans impacted by MLA rules because they were not extending payday, vehicle title, or refund anticipation loans — the targets of the original Talent Amendment. But, the revised MLA covers many more consumer loans to service members.

MLA vs. SCRA

One area of confusion is in thinking that the MLA is somehow part of the Servicemembers Civil Relief Act (SCRA). While both laws affect lending to members of the military, there are basic differences in when and to what types of credit their protections apply and what those protections are.

The SCRA applies to loans extended to servicemembers in their civilian life, and its protections kick in when they enlist or are called up to active duty. SCRA provisions apply to all types of credit, including business loans to service members.

On the other hand, the MLA applies only to consumer credit (with certain exceptions) entered into by active-duty service members.

MLA-covered loans

The limited coverage of the Talent Amendment, noted above, meant that it did not concern most bankers because they did not generally make those types of credits.

But this is not so with the new MLA. It applies to “consumer credit” to a covered borrower (for personal, family, or household purposes) subject to a finance charge or payable by written agreement in more than four installments — which is like the familiar Regulation Z we have dealt with for over 45 years.

There are exceptions. The MLA rule does not apply to:

- Mortgage loans, that is, loans secured by a dwelling. These include home purchase loans, home equity loans, and home equity lines of credit.
- Loans expressly to purchase a motor vehicle and secured by the vehicle
- Loans expressly to purchase personal property and secured by that property

One area of confusion is in thinking that the MLA is somehow part of the Servicemembers Civil Relief Act (SCRA). While both laws affect lending to members of the military, there are basic differences in when and to what types of credit their protections apply and what those protections are.

Identifying a covered borrower

Lenders are permitted to ask applicants if they are members of the military, but this way will not provide the lender with the protection of a safe harbor in the MLA rule. To avail itself of the safe harbor, a lender must use one of two specified ways to conclusively determine coverage. The safe harbor methods are:

- Querying the MLA lookup webpage from the Defense Manpower Data Center (DMDC) at mla.dmdc.osd.mil. After the lender enters the consumer's information in the search form, the system will return a certificate identifying whether the borrower is an MLA-covered service member or a family member.
- Using information in a credit report from a nationwide consumer reporting agency or a reseller to determine MLA status. The nationwide bureaus are granted access to the MLA database to make these determinations and provide some sort of MLA indicator in a borrower's credit report.

Covered borrower status must be determined before a loan is closed, not after closing, to see if MLA protections should have applied.

MLA requirements

The three general protections afforded covered borrowers by the MLA rule are:

1. Military annual percentage rate (MAPR) of no more than 36 percent. The MAPR differs from the Regulation Z APR because it is an "all in" — taking into account not only the finance charge but also many fees Regulation Z excludes from the finance charge (including some application and participation fees, credit insurance fees and premiums, and fees for credit-related ancillary products).
2. Disclosure of a statement of the MAPR (not necessarily its numerical value) describing the charges imposed that go into the calculation of the MAPR. A model statement is provided in the rule. This disclosure must be given both orally and in writing, but the oral disclosure may be given either in-person or through a toll-free telephone number.
3. Restrictions against lenders requiring waivers of the MLA protections, mandated use of arbitration, requiring allotments of military pay for loan repayment, and imposing prepayment penalties.

Penalties & resources

Failure to follow the MLA rule can result in:

- Noncomplying notes or credit agreements being void from inception
- Monetary penalties, including punitive damages
- Reputation damage (e.g., for "overcharging" military members)

The 2015 MLA rule is available at <https://www.govinfo.gov/content/pkg/FR-2015-07-22/pdf/2015-17480.pdf>. In 2016, the DoD issued an Interpretive Rule that answers a number of questions that have been posited to the department about its 2015 rule, and this interpretive document can be found at <https://www.govinfo.gov/content/pkg/FR-2016-08-26/pdf/2016-20486.pdf>.

The DoD updated its Interpretive Rule in December 2017 by revising three answers and adding one new question and answer, which can be accessed at <https://www.govinfo.gov/content/pkg/FR-2017-12-14/pdf/2017-26974.pdf>.

Another resource useful to lenders is an MLA Flowchart issued by the Consumer Financial Protection Bureau (CFPB), available at https://files.consumerfinance.gov/f/documents/cfpb_servicemembers_mla-applicability-flow-chart.pdf. *



William J. Showalter, CRCM, CRP, is a Senior Consultant with Young & Associates, Inc. (younginc.com), with over 35 years experience in compliance consulting, advising and assisting financial institutions on consumer compliance and compliance management issues. He also develops and conducts compliance training programs for individual banks and their trade associations and has authored or co-authored numerous compliance publications and articles. Bill can be reached at wshowalter@younginc.com.

RISING TIDE — BONDS TO OWN FOR A RATE HIKE ENVIRONMENT

BY JIM REBER, ICBA SECURITIES





Community bankers are nothing if not predictable, and I mean that as a compliment. They are bright, enterprising, have a nose for the risk/reward dynamic and a sense of duty and loyalty to their customers and staff. They're also deathly afraid of rising interest rates.

The last is understandable, speaking as one who has: A) worked for a bank when overnight rates were double-digit; B) personally borrowed money for a home at 12%; and C) worked in financial services during the near-death of the thrift industry. We know how low rates can go. What we don't know is how high they can go, nor for how long.

But what's a bit curious about this widespread fear is that by a number of measures, community banks in 2022 stand to profit from higher interest rates. This comes from banking regulators, interest rate risk modelers, and even bankers themselves. I suppose the notion of a bond portfolio losing four, five or six percent of its value drives some of this thought process. So, as we haven't had to endure a rate hike scenario since 2018, we'll use the rest of this column to remind ourselves which bonds stand a good chance of performing well if higher rates do indeed prevail in the near future.

Old school

Certainly, the bonds that fit the most traditional definition of a floater have very short reset periods, are indexed to money market equivalents, and have large or no caps, both periodic and lifetime. The model for such security is a Small Business Administration (SBA) 7(a) pool. These securities float based on

the prime rate, which is 100% correlated to fed funds. Most SBAs reset monthly or quarterly and have no caps — so wherever prime goes, so goes your yield.

The rub on SBAs, at least from a risk standpoint, is that many of them come with large premium prices of 108, 109 or even higher. This exposes the investor to unwelcome prepayments. Still, the many benefits (have we mentioned 0% risk weighting?) make them attractive to short investors. It's not uncommon for them to yield around prime minus 2.75%, which will beat fed funds by about 25 basis points (0.25%). They are true money market alternatives.

Mortgage floaters

These days there are few true mortgage-backed securities (MBS) floaters. The ones that do exist usually have an extended period of time with a fixed rate before they convert to adjustable. This "extended period" can be three, five, seven years, or more, so they're really not floaters yet. However, one day they will adjust and help their market value stay relatively stable.

Something new about these is that the Secured Overnight Financing Rate (SOFR) index is becoming more visible. SOFR is the U.S. alternative to London Interbank Offered Rate (LIBOR), and it has generally tracked fed funds so far. And, since these will have prices closer to par, the investor doesn't have to take a gigantic bite of prepaying risk. Starting yields are wholly dependent on the fixed-rate period and other variables, but they deserve a look.

Even if you don't own a floater, an easy-to-execute trade that will help limit your price volatility is "up-in-coupon" securities. It doesn't matter if they're MBS, agencies, or munis: The bigger the stated interest rate, the greater the cash flow and the lower the duration.



Clip coupons

Even if you don't own a floater, an easy-to-execute trade that will help limit your price volatility is "up-in-coupon" securities. It doesn't matter if they're MBS, agencies, or munis: The bigger the stated interest rate, the greater the cash flow and the lower the duration.

The best example of this strategy is a tax-free municipal bond that has a big stated interest rate, or "coupon." It's common to see a newly hatched security with a 4% rate that comes to market at an original issue price of 120 or more. This is a quality to be embraced. For one thing, the fact that the yield is tax-free makes the security less volatile than a taxable bond. If (and when it appears) interest rates rise, the large interest payments will further help keep the value of the bond from falling off the table.

Do-it-yourself

There's another way to inject floating rate securities into your bond portfolio, and that's to build them yourself. It's a simple task to buy and own a collection of long-duration municipal bonds — that's how they typically come to market. A recent innovation is the ability to execute an interest rate swap to instantly, or at some designated point in the future, turn the munis into floaters.

Interest rate product providers are equipped to price out transactions whereby a community bank can convert a bond, a collection of bonds, or a subsector of your balance sheet into short-duration assets that will see their yields improve every time

the Fed has a "policy adjustment." Maybe the best news is that these transactions can now be executed in sizes that fit your community bank's needs.

How many rate hikes might we see this year? That's the subject of myriad conversations around the board room, water cooler, and ALCOs. I'm pleased to report that investments built for rising rates can take on a variety of appearances and are fully accessible to your community bank. *

March webinar to discuss rising rate strategies

ICBA Securities and its exclusive broker Vining Sparks continues its webinar series, Community Banking Matters, on March 8 at 10 a.m. Central. The timely topic is "Balance Sheet Strategies in an Expected Tightening Cycle." CPE credit of one hour is offered for each webinar. For more information, visit viningsparks.com.



Jim Reber (jreber@icbasecurities.com) is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks.

An advertisement for First National Bank. The top half features a blurred background of a library or study room with wooden tables and chairs. Overlaid on this is the text "ALWAYS OPEN" in large, serif capital letters, followed by "Open an account or apply for a loan anywhere, anytime." In the bottom right corner of the ad, a laptop screen shows the First National Bank website with a login form. The laptop keyboard is visible at the bottom. A small "Member FDIC" logo is in the bottom right corner of the laptop screen.



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COMING RATE HIKE SHOULD NUDGE BANKERS TO FOCUS ON DEPOSIT MANAGEMENT STRATEGY

BY SUSAN SHARBEL, SENIOR ADVISOR, ADVISORY SERVICES, AND DAVE KOCH, DIRECTOR, ADVISORY SERVICES



Tighter Fed policy puts ALM in focus

The Federal Reserve's signal that it will start raising interest rates in March 2022 generated a collective high-five throughout the banking industry. Bankers have been poised and waiting for interest rates to rise as they are counting on reaping the rewards of an asset-sensitive balance sheet. However, without proper planning, the joy may be short-lived. The Fed news should give bankers even more reason to consider their asset/liability management (ALM) and deposit management strategies, policies, and programs.

Generally, bankers expect the yield on earning assets to increase sooner than the costs of their deposits. However, if a financial institution is to capture any of the projected economic growth moving forward, core funding is key. Now is actually a good time to look at growing deposits.

Market volatility could generate another surge

One risk in growing deposits is that the current depositor mix includes a level of "surge deposits" that, while core in nature, are not well defined in terms of price sensitivity. To retain the surge and grow new funding, institutions may need to increase rates paid to depositors sooner and more than projected.

Otherwise, they risk losing funds and customer primacy to competitors, the stock market or other investments as depositors seek even higher yields.

However, in recent weeks we have witnessed uncertainty on Wall Street about tighter Fed policy, inflation, supply chain disruptions, labor shortages, and the pandemic's longevity. The Dow Jones Industrial Average (DJIA) has been down more than 6% over the last month, and some analysts are projecting lower returns from equities over the next decade. Plans for aggressive rate increases and a suspension of asset purchases have many firms projecting slower growth and reduced yields for equities.

If the market trends downward for long, banks and credit unions worried about money walking out the door might be surprised to find that does not happen. Financial institutions may see yet another flight to safety from investors looking for certainty after enjoying a good run in the market. As a result, financial institution deposit levels may increase yet again — a surge on surge!

What's your deposit management strategy?
Pricing the existing deposits profitably while considering the potential new surge requires institutions to have a strong plan

thought out in advance for product and pricing approaches to manage marginal costs. They also need to act quickly on deploying these funds into appropriate assets to manage the margin.

How will a financial institution know which customers will do what and how to take advantage of the opportunities presented?

Understanding the makeup and behavior of depositors over time through various cycles is key. This understanding across cycles needs to include:

- Attributes related to demographics, generational factors, and relationships
- Market rate correlations to pricing
- Rate sensitivity

Armed with this knowledge, an institution can strategically develop appropriate pricing and mix strategies to take advantage of opportunities to grow the deposit base. Additionally, considering how long accounts are likely to stay on the balance sheet can help leaders identify how to best leverage their deposits to provide low-cost funding to finance strategic growth.

Today, the asset/liability management process is front and center to ensure margins act — as so many hope and believe they will — as rates increase. *



Susan Sharbel brings over 35 years of expertise in the banking industry, with a focus on asset/liability management and regulatory compliance. Prior to joining Abrigo, she was an ALM consultant leading ALM model implementations and managing the quarterly ALM process, support, and analysis for nearly 40 banking clients. As a Senior Advisor in Abrigo's Advisory

Services Group, Susan consults with financial institutions on their overall asset/liability management needs.



Dave Koch is Director of Advisory Services with Abrigo and a lead faculty member of the Graduate School of Banking – Madison. Dave works with financial institutions on their capital planning, strategy development, loan & deposit pricing, and overall Asset/Liability management to meet the earnings and growth needs while managing regulatory concerns for his clients.

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Financial institutions may see yet another flight to safety from investors looking for certainty after enjoying a good run in the market. As a result, financial institution deposit levels may increase yet again — a surge on surge!



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1892 <i>130 Years</i>	State Bank of Downs Downs	1913 <i>109 Years</i>	Swedish-American State Bank Courtland
1901 <i>121 Years</i>	ESB Financial Emporia	1998 <i>24 Years</i>	The Farmers & Merchants Bank of Colby Colby
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April

1883 <i>139 Years</i>	FNB Washington Washington	1905 <i>117 Years</i>	Solomon State Bank Solomon
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1898 <i>124 Years</i>	Farmers State Bank Westmoreland	1921 <i>101 Years</i>	First National Bank Frankfort
1903 <i>119 Years</i>	Farmers State Bank Wathena	1980 <i>42 Years</i>	The Bank of Protection Protection

ANNOUNCEMENTS



Brad Yaeger

Steven F. Suellentrop

Brad Yaeger

Brad Yaeger is announcing his retirement as President/CEO effective March 2022, after 42 years in banking and serving three years as President at Legacy Bank (formerly State Bank of Colwich). Brad joined the family-owned Bank in 1988 and transitioned into the role of President when Frank Suellentrop retired in December 2018. Brad is turning over leadership of the 136 year-old Bank to Executive Vice President Steven F. Suellentrop. A fifth-generation banker, Suellentrop will become President of Legacy Bank effective March, 14, 2022. *



Angela Malley



Teresa Akers



Matthew Broderick



Nicole Easton



Christopher English



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Brandi Foley



Jennifer Moore



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Jennifer Boldt



Chris Davis



Andrew Ebert



Terri Hecox



Mindy Mesier



Jess Sojka



Hayden Staerkel

The Trust Company of Kansas (TCK) is pleased to announce the following promotions: **Angela Malley** has been promoted to Senior Vice President & Chief Investment Officer, effective January 1. **Teresa Akers** has been promoted to Vice President & Trust Officer in their Lawrence market. **Matthew Broderick** has been promoted to Trust Officer. **Nicole Easton** has been promoted to Vice President & Trust Officer. **Christopher English**, CEO, has taken on the additional role of Chairman of the Board. **Stephen English** has been promoted to Chairman Emeritus. **Brandi Foley** has transitioned into the role of Trust Administrator. **Jennifer Moore** has been promoted to Vice President & Trust Officer. **Lee Anne Thompson** has been promoted to Vice President & Employee Benefit Officer.

TCK also welcomes **Jennifer Boldt** as the Trust Operations Specialist; **Chris Davis** as Vice President & Trust Officer in the Lawrence market; **Andrew Ebert** as Vice President — Technology; **Terri Hecox** as Vice President & Trust Officer; **Mindy Mesier** as Trust Administrator; **Jess Sojka** as Trust Administrator; and **Hayden Staerkel** as Vice President & Trust Officer. *

Products and Services Reference List

Each asterisk (*) represents an agreement for a specific endorsed product with that company. Not all products that these companies offer are endorsed by CBA. To see a detailed list and explanation of endorsements, visit CBA online at cbak.com.

Keep in mind that the services provided by each company on this list may only be a sampling of the many services they offer. By their CBA Associate Membership, these

companies have shown their commitment to serving community banks. Please look to these companies first, whenever possible, to meet your banking needs.

The following CBA Associate Members are ready to serve you when you need them. Please keep this list handy, and the next time you're looking for a specific service, you'll know where to look first! Remember, this is just a sampling of what each company provides.

ABSTRACTING

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The Fullinwider Firm, LLC
Liberty, MO 816-781-6939
Varney & Associates, CPAs, LLC
Manhattan, KS 785-537-2202

ACH

***SHAZAM**
Johnston, IA 515-288-2828

ADVERTISING SPECIALTIES

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ALARMS & SECURITY PRODUCTS

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Opplicher Banking Systems, Inc.
Lenexa, KS 800-487-7875

ASSET LIABILITY MANAGEMENT

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QwickRate
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ATM EQUIPMENT (NEW/USED)

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Opplicher Banking Systems, Inc.
Lenexa, KS 800-487-7875

AUCTION

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BACK ROOM SERVICE

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BALANCE SHEET CONSULTING

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BANK OPERATIONS

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BANK/PEER PERFORMANCE

QwickRate
Marietta, GA 800-285-8626

BANKRUPTCY

Hinkle Law Firm
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Spencer Fane LLP
Overland Park, KS 800-526-6529

BANK STOCK LOANS & LOAN OVERLINES

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BOND ACCOUNTING

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***ICBA Securities Corporation**
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*MPA Systems

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Purple Wave

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Young & Associates, Inc.

Kent, OH 800-525-9775

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***Bank Compensation Consulting (BCC)**
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Young & Associates, Inc.
Kent, OH 800-525-9775

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First National Bank of Hutchinson
Hutchinson, KS 800-293-0683

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Young & Associates, Inc.
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Credit Card Program

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Heather, Washington, DC 800-242-4770

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Modern Banking Systems
Ralston, NE 800-592-7500

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Heather, Washington, DC 800-242-4770
***SHAZAM**
Matt M. Johnston, IA 515-480-5767

DEBT COLLECTION

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Wichita, KS 316-267-2000

DIGITAL LENDING

***BHG Bank Group**
Tom, Syracuse, NY 315-372-4510

DIRECTORS AND OFFICERS INS.

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Danielle, St. Louis, MO 800-255-5072

*UNICO Group, Inc.

Diana, Lenexa, KS 800-755-0048

DIRECTORS EXAMS

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Manhattan, KS 785-537-2202

DISASTER RECOVERY FACILITY PROGRAM

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EMPLOYEE AND EXEC. BENEFITS

*Bank Compensation Consulting (BCC)

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HUMAN RESOURCES

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Computer Services, Inc. (CSI)

Paducah, KY 800-545-4274

Kansas Bankers Technologies

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RESULTS Technology

Overland Park, KS 877-435-8877

Varney & Associates, CPAs, LLC

Manhattan, KS 785-537-2202

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INSURANCE PRODUCTS

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INTEREST RATE RISK SERVICE

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*ICBA Securities Corporation

Jim, Memphis, TN 800-422-6442

INTERNAL AUDIT

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INTERNET BANKING

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INTERNET WORLD WIDE WEB

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INVESTMENTS

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Commerce Bank

Kansas City, MO 800-821-2182

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Overland Park, KS	877-435-8877

LEGAL SERVICES

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Spencer Fane LLP	
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Woner, Reeder & Girard, P.A.	
Topeka, KS	785-235-5333

LENDING

*BHG Bank Group	
Tom, Syracuse, NY	315-372-4510
Bankers Healthcare Group	

Syracuse, NY	866-588-7910
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LOAN COLLECTIONS AND WORKOUTS

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Varney & Associates, CPAs, LLC	

Manhattan, KS	785-537-2202
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MERCHANT PROCESSING

*SHAZAM

Johnston, IA	515-288-2828
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MERCHANT SERVICES

*Fitech Payments

Mitch, Fort Worth, TX	682-201-5551
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MERGERS/ACQUISITIONS

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NETWORK SECURITY

Kansas Bankers Technologies

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PAYMENTS

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PORTFOLIO MANAGEMENT

Central States Capital Markets

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*Financial Management Services Inc. (FMSI)

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