Central Iowa Chapter

Spring/Summer - 2015 **Newsletter**

Welcome

To Our Newest Members!

<u>West Bank</u> – West Des Moines, IA
<u>Community Bank</u> – Indianola, IA
<u>Farmers State Bank</u> - Yale, IA
<u>Business Edge</u> - Clive, IA

Whats Been Happening

If you haven't participated recently in RMA Central Iowa Chapter events, here's what you've missed.

In early February a *Regulator Panel Event* was held moderated by John Fisher, *CEO & President* (First American Bank). Panel Members included Mark Moylan, *Deputy Regional Director* (FDIC); Chad Jorgensen, *Portfolio Manager* (Federal Reserve Bank); Sandra Holenko, *Assistant Deputy Controller* (OCC); and Brad Hart, *Bank Analyst* (Iowa Division of Banking).

Approximately 80 bankers participated in this highly informative question and answer session which covered topics ranging from Vendor Risk Management, Cyber Security, Basel III, and Iowa's Agricultural outlook. Panel members also discussed other industry topics in addition to addressing general questions from the audience. A reception followed the panel event.

In mid-February the Central Iowa Chapter sponsored a two day *Commercial Loan Documentation* class where attendees received in-depth training on understanding the requirements of properly documenting C & I loans and the pitfalls of failing to correctly do so. This class consistently receives high praise from the attendees due to the course content and instructor's knowledge.

In April the Chapter sponsored *Lending to the Long Term Care Industry.* Attendees were informed about methods for analyzing and lending to independent living facilities, assisted living and skilled nursing centers, in addition to hospices and home health agencies. Given Iowa's aging population and health resources needed to address this trend, course content was particularly relevant for any commercial banker.

In May a *Bank Fraud Lunch & Learn* was held with Federal Bureau of Investigation (FBI) Special Agent Kevin Kohler presenting. Approximately 50 bankers attended this event where Agent Kohler discussed recent Iowa bank fraud cases, including common schemes and industry risk trends. Investigative techniques employed by the FBI were also discussed, as well as suggestions for minimizing a bank's exposure.

STAY IN THE KNOW

What's on the Central Iowa Training Horizon?

***<u>Central Iowa Chapter</u>* (Des Moines, IA)**

Structuring Commercial Loans I
8:30 AM – 5:00 PM (July 24, 2015)
Designed for lending professionals this one day class will improve attendee's ability to correctly structure working capital, seasonal, and term debt facilities thus helping to minimize surprises and facilitate repayment.

Lending to Non-Profit Organizations
8:30 AM – 5:00 PM (October 5, 2015)
This course covers appropriate methods of analyzing and lending to all types of not for profit entities including churches, colleges, charitable organizations, etc. Broaden your lending skills by attending this class.

Global Cash Flow
8:30 AM – 5:00 PM (February 17, 2016)
Learn how to make more informed underwriting decisions by combining information from both the business's and individual guarantor's sources of cash to create a global cash flow estimate and thus more accurately predict loan repayment.

Advanced Real Estate Cash Flow & Valuation
8:30 AM – 5:00 PM (April 15 2016)
Commercial real estate lending is once again at full steam. Augment your knowledge of complex issues encountered in lending on income producing or investment properties. Understand the nuances in different types of leases, as well as advanced documentation and discounted cash flow models.

Analyzing Business Tax Returns
8:30 AM – 5:00 PM (July 18, 2016)
A good companion to Analyzing Personal Financial Statements and Tax Returns, this class dives into tax and cash flow concepts relating to various types of business structures, and thus the customer's actual ability to service debt.

Analyzing Personal Financial Statements & Tax Returns
8:30 AM – 5:00 PM (July 19, 2016)
Think there is nothing more to understand…think again. This class will enrich your knowledge of using personal income tax returns and financial statements to correctly estimate debt repayment. Common business legal structures are also covered.

For more information on the benefits and how to become an RMA member, please visit **www.rmahq.org**; **http://community.rmahq.org/CentralIowa/Home**; or e-mail The Central Iowa Chapter at **centraliowarma@gmail.com** or contact any of the Board Members listed in this newsletter.

Additional Training Opportunities

Chicago Chapter ***(Chicago, IL)***

Structuring Commercial Loans II
8:30 AM – 5:00 PM (August 14, 2015)

Eastern Iowa Chapter ***(Marion, IA)***

Cash Flow Analysis I: UCA Fundamentals
(September 24 – 25, 2015)

Analyzing Business Tax Returns
8:30 AM – 5:00 PM (October 19, 2015)

Analyzing Personal Financial Statements & Tax Returns
8:30 AM – 5:00 PM (October 20, 2015)

Understanding & Interpreting Real Estate Appraisals
8:30 AM – 5:00 PM (March 11, 2016)

Detecting Problem Loans
8:30 AM – 5:00 PM (May 23, 2016)

Kansas City Chapter ***(Kansas City, MO)***

Analyzing Business Tax Returns
8:30 AM – 5:00 PM (June 15, 2015)

Analyzing Personal Financial Statements & Tax Returns
8:30 AM – 5:00 PM (June 16, 2015)

Commercial Loan Documentation (October 19 – 20, 2015)

Lending to Wealthy Individuals
8:30 AM – 5:00 PM (November 16, 2015)

Structuring Commercial Loans I
8:30 AM – 5:00 PM (December 14, 2015)

Business Writing for Bankers
8:30 AM – 5:00 PM (February 12, 2016)

Real Estate Fundamentals in Commercial Lending
8:30 AM – 5:00 PM (March 7, 2016)

Analyzing Business Tax Returns
8:30 AM – 5:00 PM (May 18, 2016)

Structuring Commercial Loans II
8:30 AM – 5:00 PM (June 9, 2016)

Midlands Chapter ***(Omaha, NE)***

Structuring Commercial Loans I
8:30 AM – 5:00 PM (September 9, 2015)

Business Writing for Bankers
8:30 AM – 5:00 PM (October 5, 2015)

Cash Flow Analysis II: Applied Concepts
(November 10 – 11, 2015)

Analyzing Business Tax Returns
8:30 AM – 5:00 PM (February 8, 2016)

Analyzing Personal Financial Statements & Tax Returns
8:30 AM – 5:00 PM (February 9, 2016)

Structuring Commercial Loans II
8:30 AM – 5:00 PM (March 18, 2016)

Problem Loan Workouts
8:30 AM – 5:00 PM (April 4, 2016)

For more information please visit **www.rmahq.org.**

Credit Risk Certification (CRC)

The CRC is the only recognized professional designation for credit and lending professionals. As a credentialed risk professional through RMA, you demonstrate a level of commitment and industry knowledge few of your colleagues have attained. Attaining the CRC designation requires several years of work experience in credit and/or lending and successfully passing an intense examination.

Candidates applying for the CRC examination should have a minimum five years credit risk experience. To assist you in preparing for the examination RMA offers the Credit Risk Certification Handbook which includes details about the exam, exam preparation, and recertification requirements.

The actual exam is designed to assess a commercial credit risk professional's knowledge in seven broad areas:

- Industry, markets and competition
- Ability to formulate business and financial strategies and execute them
- Ability to complete accurate and ongoing financial assessments of the client
- Ability to accurately assess the strength and quality of the client's cash flow
- Properly inspect and evaluate collateral values
- Identify primary and secondary repayment sources, as well as proper loan structure and documentation
- Problem loan identification and action steps

CRC certifications are valid for three years. Once certified as a CRC professional a minimum of 45 continuing-education credits must be attained within the three year renewal cycle following your actual certification.

To learn more about RMA's
Credit Risk Certification program visit **www.rmahq**.

Why Not Become an RMA Member… Join Today & Start Your 2015-2016 Membership NOW

Between now and August 31, 2015 your bank can become an Institutional Member of RMA at no cost or at a significantly discounted cost.

There has never been a better time to join RMA and discover for yourself how being an RMA Member can benefit your bank including:

- Numerous hands-on training and educational opportunities led by certified RMA instructors
- Access to RMA's extensive database of industry specific studies and standards
- A subscription to *The RMA Journal*® the Association's highly acclaimed best practices magazine
- Web based seminars and Audio conferences
- Networking and Leadership development
- Career Advancement thru RMA's Credit Risk Certification
- Industry specific information and benchmarking and much more…

For more information on the benefits and how to become an RMA member, please visit **www.rmahq.org**; **http://community.rmahq.org/CentralIowa/Home;** or e-mail the Central Iowa Chapter at **centraliowarma@gmail.com** or contact one of the Board Members listed in this newsletter.

Get Connected

Through RMA's Member Resources @ www.rmahq.org

The **Members Only** section of RMA's website gives you quick access to the many advantages of an RMA membership. Quite simply, it's your gateway to timely industry information, the latest issue of *The RMA Journal®*, the member roster, and so much more.

- **RMA Xchange** – An exclusive online community where RMA members can engage in real-time discussions and share information with other members.
- **Free downloads of the following:**
  - ***The RMA Journal*® digital version and downloadable articles** – RMA's award-winning publication written by risk professionals for risk professionals.
  - **Study Packs** – Highly focused compilations addressing critical issues in credit risk, operational risk, and market risk.
  - **Member Roster Online** - Access to over 16,000 Associate Members.
  - **RMA Bylaws**.
  - **Annual Reports**.
- **RMA's Professional Member Directory** – Proprietary listings of RMA Professional Members who provide services such as accounting, legal, and real estate.
- **Surveys and Studies** – RMA undertakes several timely and thought leading studies and surveys, such as the Risk Appetite Survey.
- **Regulatory Update** – Periodic e-newsletter offering the latest regulatory updates.
- **Basel Response** – Guidance on managing the impact and implications of Basel III.
- **Regulatory Bulletin** – Updated with timely information issued by regulators; consisting of the following sections:
  - **Washington Wrap-up** – Commentary and analysis on current regulatory and legislative initiatives.
  - **The Dodd-Frank Resource Center** – Full text of the Dodd-Frank Act, an Executive Summary of the Dodd-Frank Act, a list of NPRs implementing the provisions of the Dodd-Frank Act, as well as white papers, analysis, comment letters, and other information.
  - **The Consumer Affairs Center** – Information relating to CFPB rulemaking and enforcement.
  - **The Regulatory Environment** – Policy statements, regulations, and guidance issued by the Treasury Department, Federal Reserve Board, OCC, FDIC, OFR, and FSOC, as well as information relating to the Basel regulatory framework.
  - **Research, Advocacy, and Policy** – Comment letters, white papers, studies, analysis, and other resources designed to help risk managers in navigating the increasingly complex regulatory landscape.
- **Online Credit and Lending Dictionary –** Definitions of commonly used words and terms including Federal Reserve regulations and relevant legal and documentation concepts.
- **Manage My E-mail Preferences –** Convenient opt-in/opt-out feature allowing members to customize communications from RMA.
- **Access to local chapter network meetings and events**.
- **Career development/leadership and networking opportunities.**

AN EQUIPMENT BUILDUP – AND LETDOWN

As a borrowing customer, Mr. Gearswell, president and chief executive officer of Better Machine Corporation (BMC), a successful machine shop, represented an easy credit. Each year, he would approach his commercial banker, Lenny Ledger, with a request to upgrade BMC's equipment. And without much fanfare, these requests were granted.

Ledger was diligent about monitoring his relationship with Gearswell. Before each extension, for instance, he would go through an elaborate procedure to determine realistic collateral values.

The Site Visits

Ledger was also well aware of the importance of site visits. Not only was it stressed in his training as a credit officer, but a reminder about calls was also a part of his reference material. Ledger made wise use of a book that listed machinery values, and in its introduction the author stressed the importance of inspecting the equipment and reviewing maintenance records.

Therefore, Ledger made it a habit to call on BMC periodically. Gearswell never seemed to mind these visits, even when Ledger brought along the bank's audit team, which also looked at the equipment and asked a lot of questions.

Ledger was continually impressed with BMC's operation. The equipment was always well maintained and the plant was spotless, no grease or metal shavings on the floor. Further, the employees were always cordial, with plenty of time to explain the capabilities of their machines. After a while though, a disturbing thought began to nag at Ledger. "Whenever I go to BMC," he mused, "it seems as if some of the equipment is hardly used." But he was quick to dismiss this inkling because popping in on BMC was a "fun call" to make.

Unhealthy Trends

As the business relationship between Gearswell and Ledger developed, some unhealthy trends began to become apparent. For instance, year after year, BMC's bank debt would grow. True, some of the term debt would amortize, but Ledger's senior loan officers gradually caught on to the fact that Gearswell's desire to reduce long-term debt was often shunted aside by his tendency to purchase more state-of-the-art equipment.

During one bank review, one of Ledger's supervisors asked how much backlog the company had because profits were declining. Historical cash flow had increased, but this was due to the extra depreciation generated by the annual purchase of new equipment. It seemed the bank had an evergreen loan.

A Meeting

When the disturbing trends could be ignored no more, Gearswell and Ledger set up a meeting to discuss BMC's operations. Ledger also told Gearswell that he would report his findings to the loan committee.

At the meeting, Ledger was astounded to find the company had only a two-week backlog and that most of the equipment was usable for only very complex jobs. Gearswell explained that while the company could handle more pedestrian work, the required set-up would not make these jobs profitable.

However, Gearswell went on to explain that BMC was a full-service machine shop and that it needed every piece of equipment it owned. Gearswell also mentioned that he was getting a bit perturbed by Ledger's investigations and that he resented his judgment being called into question. Ledger returned to the bank and decided BMC was, indeed, a good credit and that Gearswell was trustworthy.

Bankruptcy

Ledger's shock was unimaginable when BMC turned up bankrupt a short time later. In the court proceedings, Gearswell claimed that he had insufficient work to use his equipment efficiently.

Ledger was only slightly dismayed at the occurrence of the bankruptcy. "After all," he boasted, "even at a bankruptcy auction, the equipment will bring top dollar—enough to pay all the bank loans and return some money to the owners." Unfortunately, Ledger did not know that bankruptcy auctions are flooded with bargain seekers on scavenger hunts. The equipment was sold at a fraction of its value and the bank wrote off a huge loss as a result.

Lessons Learned

Ledger would have done himself and his bank well to remember the following fundamentals:

1. Never underestimate the power of a site visit. When Ledger saw that the equipment was in virtually pristine condition, it should have been an immediate sign to him that something was amiss at BMC. Ledger exacerbated this problem by ignoring his instinct.

2. Appraisals are based on the concept of a "going concern." Ledger should have kept in mind that there is a significant difference between appraised value and liquidation value.

3. The *desire* for specialized equipment may be different from the *necessity* of it. Ledger should have guided Gearswell to purchase only the equipment necessary to enable BMC to operate efficiently and profitably. ®

This article was originally published in the December 1993 *RMA Journal,* but the lessons still apply today.

2015-2016
Central Iowa Chapter Officers & Board

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The Central Iowa Chapter Board

BRAD BOERNER

Sr. Credit Risk Officer - First American Bank
(RMA Board Member)

A graduate of UNI, Brad's banking career spans more than 20 years. While a Credit Analyst with Firstar Bank, Brad first became aware of RMA when reading the *RMA Journal of Lending & Risk Management* (now known as *The RMA Journal*) finding it to be particularly informative and thought provoking.

Throughout his career Brad has continued to expand his expertise thru numerous RMA classes and resources. After the Central Iowa Chapter went dormant in the early 2000's there were few hands-on training opportunities available for bankers in central Iowa. When Brad was contacted three years ago about re-forming a central Iowa chapter, he immediately volunteered to help. Brad intimately understands how important ongoing credit and risk management training is for any successful banker. He earned his CRC designation from RMA in 2008 and strongly encourages other credit and lending professionals to make a personal commitment to achieve that designation.

Brad is pleased to be on the Board of the Central Iowa Chapter of RMA and is excited about the Chapter's renewed success.

Brad lives in Clive with his wife Norie and their three sons aged 15, 14 and 12.

JODY MEAD

Audit/Credit Review Mgr. - Northwest Financial Corp.
(RMA Board Member)

Jody Mead is the Audit & Credit Review Manager for Northwest Financial Corp. A graduate of ISU with a degree in Finance, her banking background is in commercial and ag lending as well as credit underwriting. Northwest Bank is committed to the continued education of its employees and believes RMA is a great resource to facilitate their ongoing education. In addition to numerous classroom based training opportunities, RMA provides its members with ready access to a plethora of industry information both electronically and in hardcopy format including *The RMA Journal* published ten times annually.

Jody lives in West Des Moines with her husband Tim, and their three children aged 8, 6 and 4.

ROB KISTNER

VP/Credit Department Mgr. - West Bank
(RMA Board Member)

Originally from Quincy, IL Rob received his undergraduate degree from Quincy University where he played Division II baseball. After graduating he began his career with a local community bank and in 2006 relocated to Des Moines and worked as a Credit Analyst at First American Bank where he first became acquainted with RMA. In 2011 he joined West Bank as a Credit Analyst and was subsequently promoted to Credit Department Manager. In 2013 he obtained his graduate degree in Financial Management from Drake University.

Rob appreciates the wealth of information RMA publications and other resources provide. After attending his first course he quickly realized RMA's classroom based training approach was superior to Internet based or self-study programs alone. He appreciates the diversity of resources readily available thru RMA which surpass all other bank training programs and resources he has been exposed to. Rob continues to utilize RMA classes and other resources as a key training tool for his staff and himself.

Rob lives in Des Moines with his wife Emily and two children Eloise-3 and Ben-7 months.

Counties Within The Central Iowa Chapter

Adair, Adams, Appanoose, Boone, Butler, Calhoun, Carroll, Cerro Gordo, Clarke, Dallas, Davis, Decatur, Emmet, Floyd, Franklin, Greene, Grundy, Guthrie, Hamilton, Hancock, Hardin, Humboldt, Jasper, Keokuk, Kossuth, Lucas, Madison, Mahaska, Marion, Marshall, Mitchell, Monroe, Palo Alto, Pocahontas, Polk, Poweshiek, Ringgold, Story, Tama, Taylor, Union, Wapello, Warren, Wayne, Webster, Winnebago, Worth and Wright

RMA Electronic

Know a Banker that would benefit by receiving *The Central Iowa Chapter of the RMA Newsletter*? If so, contact Kathy Lourens at klourens@ncmic.com and provide their contact information