



ICB OF SOUTH DAKOTA

Voice of

INDEPENDENT COMMUNITY BANKERS OF SOUTH DAKOTA

OCTOBER, 2010

President's Message



While the calendar says the first day of fall is September 22nd, I think the night of October 2nd, when it reached a chilly 25 degrees, may more accurately mark the first day of fall, for 2010. Despite the cooler weather, fall remains my favorite time of year for many reasons. In South Dakota it means the end of mosquitoes and bugs which is a lot easier on my windshield. The start of fall also brings the hunting season which is a major boost to many of our communities as thousands of out of

state hunters fill our state and towns. Equally as important to our communities it brings the start of the high school sports season. Whether you are into football, volleyball or basketball, we all know that our communities revolve around the activities of our youth during the fall and winter months.

Along with high school sports, it also brings the NFL and college football seasons. Many weekend hours are consumed by our faithful following of our favorite teams - all hoping "this is our year". Speaking of favorite teams, I seem to be surrounded by Minnesota Twins fans as the baseball season comes to an end, all with the anticipation of another world series in Minnesota. The cool weather may bring a different feel at the new Target Field this post season.

I recently attended a conference where one of the presenters made reference to the famous 1973 World Series quote by Yogi Berra, "It ain't over till it's over!", when speaking about the 1300 page Financial Reform bill. Most of us have not read the entire bill and even if we had, we likely would not be sure what exactly all the consequences of the bill are. While not all of the effects of the bill will be beneficial for community banks, I believe now was the time for financial reform. Our industry, and country, could not afford to let the systemic risk banks (too-big-to-fail) continue without change. The reference to the Berra quote above was to point out that the true effects of the bill will be shaped and molded as the policies and procedures are put into motion, over the next several years. One can be sure that the too big to fail banks will be working to influence the final outcome of the financial reform bill. We, as community bankers, need to continue to voice our concerns and opinions to make sure our industry is protected, as well.

I want to personally thank all of you who have contributed to the ICBSD PAC, over the last year. We were able to make a record level of political contributions, within our state, for 2010. I think that's a clear statement of your commitment, to the future of community banking, in South Dakota. That reminds me, fall will also bring to an end those countless political advertisements that we have all endured for the last several months. With that in mind, I urge all of you to get out and vote for the candidate of your choice. *Go Yankees!!*



Timothy Prince
President

National Director's Report



One of my favorite months is here. With it, I look forward to the hunting season, which I enjoy very much. The harvest in our area is in full swing. We have had some very nice weather for it. In our area, farmers are upbeat, talking about record crops and looking forward to a great harvest.

October signals another time for me. As a member of our City Council, it is a time to finish and approve our annual budget. It is a time to reflect on the past year's projects, and department budgets, which have been completed and look into the future and plan for it. While I say that, it just grates me that our representatives in Washington, D. C. can't even approve a budget, let alone balance one. They actually adjourned a week and a half early.

Here is a quote from Cam Fine, ICBA CEO: "The House officially adjourned September 30th at 1:20 am. No budget, no tax cut extensions, no USDA food nutrition bills. All punted to the Lame Duck. Regardless of your political feelings, the Congress is bitterly divided not only between Ds and Rs, but between conservatives and liberals within each party. This does not bode well for overall governance of this nation. This is a hell of a way to run a nation."

But yet, before they adjourned they had 400 fundraisers in 14 days. That just stinks! With over 30,000 registered full time lobbyists in Washington, D. C., and over 4,000 trade groups headquartered there, you can see how that could happen.

An area of legislation, which ICBA has worked hard on this past month, is H.R. 5297 It is the Small Business Jobs Act of 2010, which ICBA strongly supported. As you know, this bill was signed into law in September. I have included a fact article, from ICBA, below:

Small Business Jobs and Credit Act of 2010 (H.R. 5297): **Small Business Lending Fund**

Background: The act establishes a \$30 billion Small Business Lending Fund for interested community banks with \$10 billion or less in assets.

Eligibility: Community banks with less than \$1 billion in assets will be eligible for investments of up to 5 percent of risk-weighted assets, and banks with between \$1 billion and \$10 billion in assets will be eligible for investments of up to 3 percent in risk-weighted assets. Banks that are on the FDIC problem list, or not current on TARP Capital Purchase Program dividend payments, are not eligible. TARP participants generally will be able to refinance TARP capital into the new program.

Cost: The funds carry a base dividend rate of 5 percent. Participants that increase their small-business lending will be able to lower their dividend rate to as low as 1 percent during the first two-year period.

What's Next: The SBLF program will be administered by the bank regulators and the Treasury Department, and ICBA is urging them to move quickly. They will be responsible for crafting the term sheets, rules and regulatory capital determinations for the program.

What It Means for Community Banks: The fund allows interested community banks to provide up to \$300 billion in credit to small businesses to help the economic recovery.

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Enhanced Small Business Administration (SBA) Lending Programs:

Background: The act extends Recovery Act provisions that increase government guarantees on SBA loans from 75 percent to 90 percent and reduce borrower fees, permanently increases allowable loan limits on SBA 7(a) and 504 loans and expands the SBA's trade and export finance programs.

What's Next: The SBA will issue guidance on the implementation and timing of the law's changes. No statutory deadlines are set.

What It Means for Community Banks: These provisions will help community banks increase the flow of SBA lending to small businesses.

Targeted Tax Cuts for Small Businesses:

Background: The act provides \$12 billion in targeted tax cuts for small businesses by allowing for a 100 percent exclusion of capital gains tax on small-business investments made in 2010, increasing the maximum deduction for start-up expenditures in 2010 and 2011 to \$10,000, increasing small-business immediate expensing up to \$500,000 over two years with 50 percent bonus depreciation and decreasing the Subchapter S Corporation holding period to mitigate the built-in-gains tax.

What's Next: The Internal Revenue Service will issue needed guidance on the implementation of the new tax laws. Again, no deadlines are in place.

What It Means for Community Banks: These targeted tax cuts will directly impact the bottom lines of the nation's small businesses and create new opportunities for the community banks that serve them to expand lending and promote economic recovery.

Another area that ICBA has worked hard on this past month is with the new proposed FASB Exposure Draft. ICBA, along with many community bankers, offered comment concerning the proposed accounting changes. These comments urged FASB to withdraw the proposal and not go forward with the accounting changes. If these changes take place it would misrepresent the operations of community banks whose primary business practice is to fund their operations by taking deposits and holding loans for the long term. Most financial instruments community banks hold are not readily marketable. We are not in the business to create or purchase assets or liabilities for quick resale. If the proposed accounting treatment goes forward, community banks will have to reconsider making longer-term loans and deposits because of the impact of the changes in fair values they will need to record. Accounting changes due to this proposal would be expensive to implement but be of questionable value.

Dick Behl
ICBA Director for South Dakota

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CALENDAR OF EVENTS

CEO/DIRECTORS' CONFERENCE

October 27 - 28, 2010

Best Western Ramkota, Sioux Falls

ICBA CONVENTION

March 20 - 24, 2011

San Diego, CA

ANNUAL RETREAT

July 28 - 30, 2011

Sylvan Lake Lodge, Custer State Park

ANNUAL RETREAT

July 26 - 28, 2012

Sylvan Lake Lodge, Custer State Park

BRYANT STATE BANK WINS BETTER BUSINESS BUREAU HONORS

ICBSD member, Bryant State Bank, was recently awarded the 2010 BBB Integrity Award at the Better Business Bureau's Annual Award Luncheon in La Vista, NE. The keynote speaker was Holly Petraeus, Director of BBB Military Line and wife of Army General David Petraeus, Commander of U.S. and NATO Forces in Afghanistan.

Jim Hegarty, CEO of BBB serving Nebraska, South Dakota and southwest Iowa stated, "In today's challenging economic climate, honesty and integrity are more important than ever. This year's award recipient, selected by an independent panel of judges, represents what is best about business in the great state of South Dakota. Bryant State Bank has solid business practices, based on a commitment to serve their customers with the highest standard of ethics. They are successful because of the trust that has been established and the BBB Integrity Award recognizes their leadership, in the banking industry and in their community."

~Better Business Bureau, Inc. (BBB) has served the region for more than 70 years and currently has a membership of more than 7,500 companies in Nebraska, South Dakota and southwest Iowa. The non-profit organization is dedicated to promoting trust between consumers and the business industry.



(l to r) Jim Hegarty, BBB and Lee Jacobson, CEO of Bryant State Bank.

THOSE INCREDIBLE SHRINKING SPREADS

By Jim Reber, ICBA Securities

It's a defense mechanism that all sales representatives develop over time. It matters not the product being sold. Whenever a price increase is being pushed through to the end users, the party trying to sell the goods in question gets the "story" ready. The story attempts to get the buyer focused on features other than price.

So here it comes, ladies and gentlemen: The bonds currently in your portfolio have performed exceedingly well so far in 2010. There are few or no individual securities that are worth less than you paid for them. [Caveat: This claim excludes Fannie Mae/Freddie Mac Preferred Stock, TRUPS that have been downgraded, and certain municipal bonds which are below investment grade or are not rated at all.]

It's almost a certainty that your portfolio's value has risen. Investors large and small, long and short, have been forced to purchase bonds this year for the normal variety of reasons. These include asset/liability needs, collateral pledging, risk-based capital improvement, diversification, and not least to improve upon money market rates that are near zero. **You May Have Noticed**

One does not need to be a bond analyst to reach a conclusion about the path of interest rates this year. Armed only with a line graph of, say, the three-year Treasury note's yield, one will notice that it's been almost a non-stop trip downwards. Between April 5 and September 28, the yield dropped a full 110 basis points. While that's not unprecedented, the absolute yields that have resulted are. In this five-month period we went from a 1.75% yield down to 0.65%. For a three-year note. This is historic.

It's time for me to remind you that banks don't buy Treasury products with much conviction. A typical community bank investment portfolio has about one percent of its moneys in Treasuries. The rest are invested in "spread product," or instruments that trade at a spread, or additional yield, to Treasuries.

Broker/dealer types tend to track these spread relationships to identify pockets of value. What we've detected is that, almost without exception, spreads have narrowed throughout 2010. This means, in accounting terms, that the value of your holdings has increased more than if you had owned exclusively Treasuries. The investing public has gradually accepted that the incremental risks of many securities, especially those issued by the government sponsored enterprises (GSEs), are quite small.

How To Track Spreads

ICBA Securities publishes a Spreads Snapshot each Friday on its website, www.icbasecurities.com. An example is included on this page. There you will see the additional yield available in a variety

of community bank-suitable investment products. One will see that, at the moment, spreads are as low as they've been all year, and certainly a lot smaller than a year ago.

A sector that has not narrowed as much is mortgage-backed securities. As investors contemplate paying ever-higher premiums for bonds that can prepay at any moment, the relative value can and has lagged that of non-callable instruments. This doesn't mean that their prices have gone down; they by and large have simply not increased as much as others. You can anticipate that there is a ceiling on how high prices can go on most MBS. And quantifying yields has been elevated to an art form, as prepayment assumptions have huge impacts on what an investor will actually earn.

So, there you have it. Lower yields equal higher prices. This is further boosted when spreads narrow, as has been the case this year, or when the yield curve is steep, which is also the case. What you currently own has done very well lately.

Can I interest anyone in a handsome three-year FHLB bullet agency with a generous 82 basis points of yield?

Jim Reber is President/CEO of ICBA Securities and can be reached at 800-422-6442 or jreber@icbasecurities.com.

| | | 10/2/09 | 3/28/10 | 6/25/10 | 7/23/10 | 8/13/10 | 8/20/10 | 8/27/10 | 9/3/10 | 9/10/10 | 9/17/10 | 9/24/10 |
|----------------------------------|--|---------|---------|---------|---------|---------|---------|---------|--------|---------|---------|---------|
| Treasuries (Yield) | | 1Y Ago | 6M Ago | 3M Ago | 2M Ago | 6W Ago | 5W Ago | 4W Ago | 3W Ago | 2W Ago | 1W Ago | Current |
| 2 Year Treasury | | 0.87 | 1.06 | 0.66 | 0.56 | 0.53 | 0.48 | 0.55 | 0.51 | 0.57 | 0.46 | 0.44 |
| 5 Year Treasury | | 2.21 | 2.60 | 1.90 | 1.67 | 1.47 | 1.41 | 1.48 | 1.49 | 1.57 | 1.44 | 1.36 |
| 10 Year Treasury | | 3.22 | 3.85 | 3.10 | 2.94 | 2.70 | 2.58 | 2.63 | 2.70 | 2.77 | 2.75 | 2.61 |
| 15 Year Treasury | | 3.80 | 4.37 | 3.69 | 3.52 | 3.26 | 3.09 | 3.11 | 3.21 | 3.28 | 3.31 | 3.19 |
| Agency Bullets (Spread) | | 1Y Ago | 6M Ago | 3M Ago | 2M Ago | 6W Ago | 5W Ago | 4W Ago | 3W Ago | 2W Ago | 1W Ago | Current |
| 2 Year Bullet | | -13 | 7 | 14 | 11 | 11 | 11 | 12 | 14 | 15 | 11 | 11 |
| 5 Year Bullet | | 26 | 20 | 30 | 25 | 19 | 22 | 27 | 25 | 25 | 26 | 27 |
| 10 Year Bullet | | -42 | 30 | 48 | 46 | 40 | 36 | 43 | 43 | 33 | 33 | 33 |
| Agency Callables (Spread) | | 1Y Ago | 6M Ago | 3M Ago | 2M Ago | 6W Ago | 5W Ago | 4W Ago | 3W Ago | 2W Ago | 1W Ago | Current |
| 2 Year NC 1 Year | | 26 | 15 | 24 | 18 | 15 | 11 | 12 | 19 | 16 | 19 | 19 |
| 5 Year NC 1 Year | | 75 | 37 | 54 | 46 | 39 | 41 | 44 | 47 | 42 | 47 | 47 |
| 10 Year NC 1 Year | | 105 | 50 | 59 | 40 | 40 | 44 | 50 | 50 | 46 | 50 | 50 |
| 15 Year NC 1 Year | | 104 | 48 | 53 | 38 | 40 | 49 | 61 | 61 | 56 | 60 | 68 |
| 5 Year NC 2 Year | | 55 | 27 | 43 | 35 | 29 | 33 | 34 | 36 | 32 | 34 | 34 |
| 10 Year NC 2 Year | | 85 | 40 | 48 | 32 | 31 | 33 | 37 | 37 | 33 | 35 | 35 |
| 15 Year NC 2 Year | | 77 | 43 | 42 | 29 | 34 | 40 | 47 | 46 | 43 | 51 | 55 |
| Corporates (Spread) | | 1Y Ago | 6M Ago | 3M Ago | 2M Ago | 6W Ago | 5W Ago | 4W Ago | 3W Ago | 2W Ago | 1W Ago | Current |
| 2 Year 'A' Rated | | 165 | 120 | 130 | 115 | 112 | 110 | 115 | 110 | 108 | 108 | 106 |
| 5 Year 'A' Rated | | 175 | 130 | 162 | 145 | 142 | 135 | 140 | 135 | 133 | 133 | 131 |
| 10 Year 'A' Rated | | 190 | 144 | 156 | 145 | 142 | 135 | 140 | 135 | 133 | 133 | 131 |
| 15 Year 'A' Rated | | 197 | 185 | 200 | 190 | 187 | 180 | 183 | 178 | 176 | 176 | 174 |
| Municipals (Spread) | | 1Y Ago | 6M Ago | 3M Ago | 2M Ago | 6W Ago | 5W Ago | 4W Ago | 3W Ago | 2W Ago | 1W Ago | Current |
| 5 Year Municipal | | 16 | -30 | 46 | 47 | 21 | 26 | 4 | -4 | -13 | 1 | 9 |
| 10 Year Municipal | | 96 | 60 | 119 | 104 | 98 | 110 | 59 | 44 | 36 | 39 | 53 |
| 15 Year Municipal | | 163 | 108 | 163 | 145 | 138 | 157 | 130 | 121 | 114 | 111 | 125 |
| CMOs (Spread) | | 1Y Ago | 6M Ago | 3M Ago | 2M Ago | 6W Ago | 5W Ago | 4W Ago | 3W Ago | 2W Ago | 1W Ago | Current |
| 2 Year PAC | | 95 | 65 | 70 | 70 | 75 | 75 | 70 | 80 | 75 | 75 | 72 |
| 5 Year PAC | | 110 | 75 | 80 | 85 | 90 | 90 | 85 | 95 | 90 | 90 | 88 |
| 10 Year PAC | | 105 | 70 | 74 | 74 | 80 | 80 | 80 | 90 | 85 | 85 | 84 |
| 2 Year Sequential | | 115 | 85 | 90 | 90 | 90 | 90 | 90 | 100 | 100 | 100 | 96 |
| 5 Year Sequential | | 130 | 115 | 110 | 110 | 110 | 110 | 105 | 115 | 110 | 110 | 108 |
| 10 Year Sequential | | 115 | 100 | 100 | 100 | 100 | 100 | 100 | 110 | 100 | 100 | 98 |

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FINE POINTS - by Camden R. Fine



HALFTIME IS ENDING

If Wall Street financial reform were a Super Bowl, the fireworks that frequently cap off the game's halftime show would be lighting up the sky. We'd be discussing the game's highlights and lowlights and possibly renegotiating our friendly pregame wagers. Some of us would be restocking ice chests, refilling chili crocks and potato chip bowls or passing around steaming pizza pies. A few of us might even be retouching our face paint of our favorite team's colors. We'd all be resting our voices and regrouping mentally and physically for the second half of gridiron action and the final outcome for Super Bowl history.

That's about where we are with Wall Street financial reform. Despite the nonstop bruising action we've been through on Capitol Hill, we've only reached the halfway point in a long public policymaking process. We're beginning what will be the most rigorous, but important, steps in determining the final outcome of these sweeping and historic changes, regardless of the several achievements and a few significant setbacks we experienced during the legislative process. A range of agencies will be issuing complex proposals over the next few months and years required by the massive Dodd-Frank Wall Street Reform Act.

Of course, commenting on those proposals will be hard work. The good news is that Congress, through a number of important provisions in the Wall Street Reform Act, has either explicitly or implicitly directed regulators to protect community banks from unnecessary new regulation wherever possible. ICBA and community bankers won congressional endorsement for tiered regulations that allow for practical, common-sense regulatory treatment of community banks - including exemptions from unnecessary or impractical regulations. As a community banking industry, we must turn that historic legislative achievement into concrete results throughout the rulemaking process.

Further good news is that regulators should be open to carefully considering the views and insights from you and other community bankers. The agencies will review every comment letter they receive. There is plenty of opportunity to influence how the regulations are written and how they will ultimately affect community banks, your customers and your communities.

Of course, ICBA will continue to represent the nation's community banks throughout the rule-writing process, so look to ICBA for information about the most important deadlines and proposals on which to comment. Also share your comment letters with ICBA (we post comment letters online at <http://capwiz.com/icba/home>) so we can best advocate for all of the nation's community banks.

The game clock on Wall Street reform is restarting. There's a lot to do. Please make a commitment with ICBA to ensure that your community bank participates in the process. If you never filed an agency comment letter before, now is the time to start. What's at stake is the very future of community banking and Main Street America. That's far more important than any Super Bowl game.

Reach Camden R. Fine at cam.fine@icba.org.

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COMMUNITY BANKS AND WALL STREET REFORM: WHAT'S BEING SAID?

The Independent Community Bankers of America (ICBA), and our nation's nearly 8,000 Main Street community banks, have been at the forefront of the financial regulatory reform debate since it began nearly two years ago, when the largest too-big-to-fail institutions nearly brought down our entire economy. Since the passage of the Wall Street Reform Act, they have remained vocal about the law and the actions needed to ensure that the law does not have unintended harmful consequences for community banks, and their customers.

Here are some recent headlines, and quotes, about the role of community banks in the financial regulatory reform debate.

**Small banks Avoid Overhaul's Sting*

"At nearly every turn, small banks were able to sidestep more onerous regulation, or at least blunt the impact of potential changes, from new rules on capital to fees that will pay for new regulations." (Wall Street Journal, July 20, 2010)

**US Financial Bill Marks Big Victory for Small Banks*

"Smaller U.S. banks emerged winners in the new bill to strengthen financial regulations...community bankers were able to win exemptions from more onerous regulation, or have the potential changes blunted..." (Dow Jones, July 16, 2010)

**Fine Print Survives Reform; Auto Dealers, Small Banks Win Exemptions in Financial Overhaul*

"Community banks (banks with less than \$10 billion in assets) scored a smaller but still crucial victory: They're supposed to follow the bureau's rules. But the bureau can't force them to." (Associated Press, July 12, 2010)

**Big Win for Small Banks in Overhaul*

"Provisions tucked into the financial-overhaul bill, passed by the House, would reduce premiums small banks pay the Federal Deposit Insurance Corporation, exempt them from parts of the proposed consumer-protection agency and reduce their financial exposure to some mortgages by letting them sell loans to investors." (Wall Street Journal), July 2, 2010)

2010 CEO/DIRECTORS' CONFERENCE PRESENTERS

ICBSD's Annual CEO/Directors' Conference will be October 27 - 28, at the Sioux Falls Best Western Ramkota. *As always, the Conference will feature two well-known, and highly qualified, presenters!*



David Kemp is President of Bankers Management, Inc (BMI), formerly The Management Group. BMI is a nationally recognized company in financial services training and bank consulting. Prior to forming BMI, he served as Vice President, Director of Credit Services for Cannon Lending Schools, as well as leading banking association sessions for individual financial institutions.

David has more than thirty years of experience in consulting and new business development. His areas of expertise include commercial lending, consumer lending, portfolio management, real-estate lending and director responsibilities. In addition to his banking background, he has served as a consultant to small businesses in the area of finance, operations, marketing and sales.


David's exciting session, *'How to Survive a Safety and Soundness Exam'* is timely, as today's exam is not your father's examination. Specific topics to be covered include: a) Capital Directives; b) Camel Ratings; c) Administrative Orders; d) Impaired Assets and e) OREO Property.



James Reber served as a Senior Auditor with Ernst & Whinney from 1982 through 1985, working with several financial institutions. He then worked as a financial officer in a mortgage company and a compliance officer for a regional broker/dealer. Jim joined ICBA Securities, in 1990, and was a NASD registered representative and Senior Vice President. He counted among his clients over 100 banks.

Jim was elected President/CEO of ICBA Securities, succeeding C. J. Pickering, effective April 1, 2005. He is a frequent speaker at bank conventions, seminars and conferences. Jim writes a monthly investment column for *Independent Banker* magazine. He is a Certified Public Accountant and a Chartered Financial Analyst.

His two topics are entitled *'Economic Tea Leaves'* and *'New Era for Portfolio Investing'*. a) The financial markets are forced to digest a multitude of economic reports each month. Your grasp of these key releases will allow you to understand the general direction of the economy and interests rates. b) The main Federal stimulus bill, the ARRA, contained some provisions that have wide-reaching implications for bank investments. The legislation created several new portfolio sectors, which will have appeal to banks.

| | | | |
|-------------------------|---------------------------|-------------------------------|--|
| WEDNESDAY, 10/27 | <i>Evening Reception:</i> | 6:00 p.m. |  |
| | <i>Dinner:</i> | 6:45 p.m. | |
| THURSDAY, 10/28 | <i>Breakfast:</i> | 7:45 a.m. | |
| | <i>Program:</i> | 8:30 a.m. - 11:45 a.m. | *David Kemp |
| | <i>Lunch:</i> | 12:00 Noon | |
| | <i>Program:</i> | 1:15 p.m. - 4:30 p.m. | *Jim Reber |
| | <i>Adjournment:</i> | 4:30 p.m. | |

SECURITY STATE BANK IN TYNDALL

Security State Bank, in Tyndall, was chartered November 01, 1932. The original bank officers were W. Z. Sharp, President; Anton Chastka, Vice President; and Byron R. Laird, Cashier. Directors were W. A. Sharp and F. H. Hollister of Sioux Falls and Anton Chastka, F. M. Scoblic and M. F. Schmitt of Tyndall.

The original bank building was located north of the present location. In 1934, Security State Bank moved to its current location when it purchased the former First National Bank building. The bank was remodeled in 1965 and again in 1992. The second remodel expanded the building from 2,800 to 5,600 square feet and also added the drive-up window.

Security State Bank is a third generation, family-owned, bank. Byron R. Laird, who helped start the bank in 1932, was followed by Donald B. Laird who was President from 1954 to 1994. Thomas S. Laird has been with the bank since 1971 and has been President since 1994.

The bank is a full service bank with handicap accessible facilities. It offers insurance and has a drive-up mail drop for convenience. Security State Bank has 10 full-time employees and the current Board of Directors consists of Robert E. Hajek, Alice M. Kozak, David J. Sutera, Lois J. Tjeerdsma and Thomas S. Laird.

***Every issue of the 'Independent Community Bankers' will continue to feature one of our member banks.'*



OFFICER'S COLUMN - *Emily Hofer*



Can it really be that a whole year has passed since my last Officer/Director Column? Where does the time go?

Our industry has seen so many changes, in the past 12 months, and we know that it's just the beginning. Examinations are getting tougher. Regulations are becoming increasingly more burdensome. Gone are the days of loaning money with a handshake and paying our depositors a fair return. We now fill our days with regulation interpretation, policy writing, and procedure tweaking. The cost of compliance is daunting. How can we, as community bankers, keep up with the rapidly changing environment?

ICBSD and ICBA can be your partners during this time of change. They both offer educational webinars, and seminars, for all of your bank staff levels. All of our associate members offer products and services designed to help us navigate the murky waters of regulatory burden. At the end of this month, our Annual CEO/Directors' Conference will be held in Sioux Falls. This Conference is a valuable educational opportunity for your directors, especially your outside directors. Jim Reber with ICBA Securities will present information on portfolio investing and funds management. David Kemp of Bankers Management, Inc. will present a session on "How to Survive a Safety and Soundness Exam."

Kemp's topic is very timely, as today's exam is "not your father's exam." This quote is from the conference material that was mailed out last month. It really got me thinking . . . I'm a third generation banker. My father recently retired as Pres/CEO of Merchants State Bank, after 35 plus years in the bank. What is different from his and my grandfather's days of banking? Grandpa Harris took so much pride, and joy, in being a banker and seeing the impact that he was making in our community. Would he love it today?

Why do we do it? Last month, ICBA asked community bankers to answer the following question, in 200 words or less: "Why are you a community banker?" Following is my submission:

"I am a community banker because it's banking done right. It's more than loaning money and holding deposits. Instead community banking is about advising and assisting the family farmer, the first-time home buyer, and the Main Street businessmen of America. It's about educating youth to save and spend responsibly. Finally, community banking is about waking up every day to new challenges, working to solve them, and seeing the rewards in our hometown schools and businesses."

I would like to receive responses, from our ICBSD membership, in regard to the above question. You can email your reply to me at ehofer@msb-sd.com, or mail it to: Attn: Emily Hofer, Merchants State Bank, PO Box 399, Freeman, SD, 57029. *Everyone who submits a response by Monday, October 25, will be entered in a special drawing that will be held at our upcoming CEO/Director's Conference. You need not be present to win. We will read a few of the responses at the Conference.* Thank you in advance for sharing your thoughts!

Serving as a board member for your association is a rewarding experience. I look forward to getting into more of your banks and visiting with you. What can we, as board members, do for you? Please let us know.

~*Emily Hofer is Controller of Merchants State Bank, in Freeman, and is currently ICBSD Secretary/Treasurer.*



Ginger Snaps

- #1. Our **Annual CEO/Directors' Conference** is **October 27th and 28th**. We are looking forward to having many of our member banks participate again this year. Everyone has already received the information and the registration form can also be found in this newsletter.
- #2. The **Conference presenters** are highlighted on page 5 of this newsletter issue. As always, we have a fantastic lineup! **David Kemp** is back with us by popular demand on Conference evaluations. His presentation on '*How to Survive a Safety and Soundness Exam*' could not be more timely. **Jim Reber, President of ICBA Securities**, is also highly requested. His two afternoon topics are '*Economic Tea Leaves*' and '*New Era for Portfolio Investing*.'
- #3. If you have not already reserved your Conference lodging, please do so immediately by calling the **Sioux Falls Best Western Ramkota** at **605-336-0650**. *Ask for the ICB block rate.*
- #4. Your ICBSD Board of Directors is very pleased with the growth of our **ICBSD PAC**, during the past two years. **We recently disbursed over 90% of the fund**, statewide, to many of those who are running for office, and the Legislature, this year. Please feel free to contact me with any questions.
- #5. Please be making your plans now to attend the **2011 ICBA Convention**, at the **San Diego Convention Center**, on **March 20-24**. You can find Convention information at www.icba.org.

COMMUNITY BANKER'S WEBINAR NETWORK

As you know, it takes work to stay abreast of the regulatory changes affecting the financial industry. The job is not going to get any easier now that Financial Regulatory Reform has been passed.

Your Community Banker's Association is here to help.

We have industry experts monitoring hot topics and pending rules/regulations. As soon as there is sufficient information to benefit your bank, a webinar will be offered on these important topics.

Items on Our Watch List Include:

- *Federal Regulations on Garnishments
- *Health Savings Accounts
- *SAFE Act
- *FinCen MSB's - - Stored Value Cards, Prepaid Access
- *CRA Performance
- *National Strategy for Trusted Identities in Cyberspace (Online Authentication)
- *Financial Regulatory Reform - - All Aspects

Watch Your Email for Notices on Upcoming Webinars

You can count on your *Community Banker's Association*, and the *Community Banker's Webinar Network*, to keep you informed!

ICBSD Welcomes New Associate Member

3D Security was founded in June, 2006, and is based in Sioux Falls, SD. The company is steadily emerging as a regional leader in all phases of physical and electronic security. They specialize in the installation, service and monitoring for any commercial on financial security application. They pride themselves in providing security solutions for people who need them, while providing unmatched customer service along the way. Their team has over 60 years of security industry expertise and knowledge. They always have a technical service expert on call in South Dakota, Iowa, Minnesota, Nebraska and North Dakota.

Jerry Scholl, Vice President, can be reached at **504-543-5159** or jerry@3dsec.com. You can also visit the company at www.3dsec.com.

FROM THE TOP - Jim MacPhee, Chairman of ICBA



WE, THE MIGHTY ENGINES

It has been a controversial, stressful year (and more) for community banking. But the light at the end of the tunnel will likely not be a freight train but the glow of better things to come. Remember, from 1980 to 1999, seven pieces of major legislation were passed, and we managed to comply with those changes and still made money and helped our communities grow. We will do it again this time; we always do.

Hardly any two community bankers agree on the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and its effect on their operations. It's sure not perfect, but we did get 80 percent of what we asked for - and we're working hard to improve what needs fixing.

With banks of less than \$10 billion in assets cut out of most of the legislation's amendments, I am confident that with our ICBA staff working with Congress and regulators on the language, we will be treated fairly when the smoke clears. Meanwhile, our business of common-sense local banking will need new and creative thinking - to put it mildly.

Now there's another bright spot on the horizon: The Congress and the President have enacted, along with other important tax and Small Business Administration program measures, a Small Business Lending Fund (SBLF) to include \$30 billion for community banks to loan to small businesses. With a standard 10-to-1 leverage, this fund should generate \$300 billion in new loans to help small businesses get back on their feet.

This is not Troubled Asset Relief Program (TARP) money, and it will not be used to recapitalize banks or have the restrictions that TARP had. Rather, this new fund can be used to help small businesses generate crucial new jobs and to stabilize businesses that have proven track records. And the Congressional Budget Office estimates this would ultimately return \$1.1 billion to the U.S. Treasury.

As Sen. George LeMieux (R-Fla.) said in supporting SBLF, "TARP went to the big banks [that] were failing at the end of 2008 . . . They put their assets at risk and therefore put the American economy at risk. This has nothing to do with that. These are small banks. This is the banker you know down the street. The banker who's at your Rotary, who you see at church or synagogue. This is not some Goldman Sachs banker; this is your local community banker who loans to the tailor, to the construction business, the folks that employ people in your hometown . . .

"I'm not a big believer in government spending. When we're spending to help businesses pursue their economic and entrepreneurial opportunities, that's good for America."

Our community banks have earned the reputation of being mighty engines for economic development to help our communities grow and prosper. We believe that, the President believes that, and Congress believes that.

With the SBLF bill enacted with your help, these funds will become available to community banks. We are in the perfect position to grow our banks, grow our communities and show that our model really does work and is still the envy of the world. I encourage you to take a positive view as we look through the tunnel: That bright light we see is our future.

Jim MacPhee is CEO of Kalamazoo County State Bank, in Schoolcraft, Mich.



BANKING ASSOCIATIONS ANNOUNCE INSURANCE PARTNERSHIP

The Independent Community Bankers of Minnesota (ICBM), and Community Bankers of Wisconsin (CBW), have announced a strategic alliance to provide enhanced products and services to community banks.

Upon final approval by both boards of directors, **Community Bankers Financial Services (CBFS)**, now a subsidiary of CBW, will become a joint subsidiary of CBW and ICBM.

"Community banks face unique economic challenges," said Marshall MacKay, ICBM President/CEO. "Having the combined resources of two associations focused on providing member banks with the best insurance options is an important part of helping them continue to serve their communities."

Insurance products offered will include financial institution bond; directors' and officers' liability; property, casualty, and workers' compensation; forced placed property mortgage protection; and life of loan flood determinations.

"We're excited about this joint partnership," MacKay added, "and about expanding our relationship with long time CBFS representatives Kevin Christians and Phil Hoover."

"There is a common focus shared by both groups," said Daryll Lund, CBW President/CEO. "We are dedicated exclusively to enhancing the franchise value of community banks, and ICBM's goals include providing member banks with the resources and advocacy they need to remain independent. This is a good fit all around."

Banks utilizing the new partnership will continue to have access to major insurance companies and the products most needed and requested by bankers, as well as access to knowledgeable and responsive service from Christians and Hoover.

The Community Bankers Financial Services administrative functions will move to the Minnesota office, by the end of December, 2010.

GREAT PLAINS LIFE ASSURANCE COMPANY

Great Plains Life Assurance Company, the first domestic life insurance company to be formed in South Dakota, in over fifty years, is now licensed to sell in the state.

More than 1,600 South Dakota shareholders raised \$7.8 million to start the company, which is based in Pierre. The company is marketing an annuity designed to provide buyers with life coverage and funds for retirement and education.

The Great Plains Life Assurance Company Board of Directors includes:

Corey Meyer, President; Pierre
Ginger Adams, Secretary; Mitchell
David Volk, Treasurer; Sioux Falls
Scott Engebretson, Director; Lake Ozark, MO
Bruce Lyon, Director; Pierre
Mark Meierhenry, Director; Sioux Falls
Larry Rhoden, Director; Union Center
Dana Stapleton, Director; Sisseton
Jack Theeler, Director; Mitchell

President Meyer said the board hopes the insurance industry will become a bigger part of South Dakota's economic landscape. "Every year, hundreds of millions of dollars, in insurance premiums, exit our state and go to places like Omaha and Des Moines. We believe this industry can be a great source for jobs, and economic development, in South Dakota."

REGISTRATION FORM

Independent Community Bankers
CEO and Directors' Conference
Best Western Ramkota, Sioux Falls
October 27 & 28, 2010



BANK/COMPANY _____ TOWN _____

PHONE _____ E-MAIL _____

| | <u>Banker/Director/Associate</u> | <u>Title</u> | <u>Spouse</u> |
|----|----------------------------------|--------------|---------------|
| 1. | _____ | _____ | _____ |
| 2. | _____ | _____ | _____ |
| 3. | _____ | _____ | _____ |
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| 5. | _____ | _____ | _____ |
| 6. | _____ | _____ | _____ |
| 7. | _____ | _____ | _____ |
| 8. | _____ | _____ | _____ |
| 9. | _____ | _____ | _____ |

_____ Registrants @ \$210 = \$ _____
#

_____ Registrants @ \$170 = \$ _____
*After 1st 5 registrants from same bank

_____ Breakfast/Kemp @ \$175 = \$ _____
#

_____ Lunch/Reber @ \$175 = \$ _____
#

_____ Spouse/Guest @ \$65 = \$ _____
#

TOTAL ENCLOSED: \$ _____

Please return your registration form and payment to:

***Please make check payable to ICBSD.
ICBSD will be happy to invoice you.***

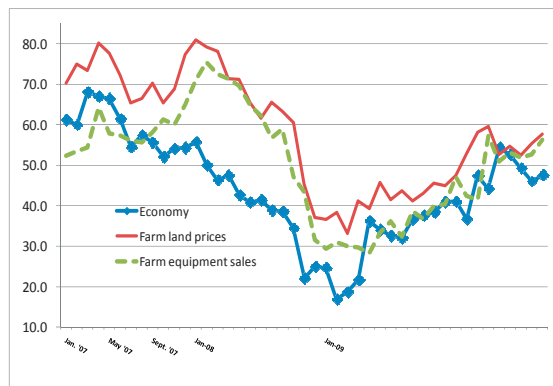
ICBSD
PO Box 696
Mitchell, SD 57301-0696



MAINSTREET RESULTS

Rural Mainstreet Economy Still Weak;
But Bank and Farm Indicators Very Healthy

Rural Mainstreet, Jan. '07 – September '10



- For a third straight month, the overall index declines below growth neutral.
- Farmland prices and farm equipment sales continue to advance.
- Home sales and retail purchases decline for the month.
- Almost one-fourth of the bankers expect a Federal Reserve rate hike in the first half of 2011.

Tables 1 and 2 below summarize findings from the August survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

| Table 1: The Mainstreet Economy | Sep 2009 | Aug 2010 | Sep 2010 |
|---------------------------------|----------|----------|----------|
| Area Economic Index | 36.5 | 46.0 | 47.6 |
| Loan volume | 49.3 | 54.2 | 57.4 |
| Checking deposits | 61.9 | 59.1 | 65.6 |
| Certificate of deposits | 50.1 | 54.2 | 55.0 |
| Farm land prices | 41.1 | 55.3 | 57.7 |
| Farm equipment area sales | 38.6 | 52.7 | 56.2 |
| Home sales | 42.7 | 38.8 | 47.6 |
| Hiring in the area | 27.0 | 45.9 | 46.0 |
| Retail Business | 32.8 | 40.2 | 45.1 |
| Economy 6 months from now | 43.5 | 46.0 | 54.9 |

WHAT YOU REPORTED IN SEPTEMBER

Overall: For a third straight month, the overall index for the Rural Mainstreet economy dipped below growth neutral 50.0, according to the September survey of bank CEOs in a 10-state region. The Rural Mainstreet Index (RMI), which ranges between 0 and 100, increased to a weak 47.6 from August’s 46.0. This index is well below readings earlier in the year, but significantly higher than that recorded for September 2009. While the farm sector is experiencing healthy growth, Rural Mainstreet businesses continue to report waning economic fortunes.

Farming: The farmland-price index moved above growth neutral for an eighth straight month to 57.7 from 55.3 in August and 52.5 in July. While businesses on Rural Mainstreet continue to struggle, farm indicators remain very strong, including farmland prices. According to Kathy Thuman, president of Farmers State Bank in Maywood, Neb, “The general economy is still struggling, but the crop and livestock producers are looking at an exceptional year. Growing conditions are the best in decades, yields are up and prices are good.” She indicated that the biggest concern was a dramatic increase in farm input costs. The farm equipment-sales index soared to 56.2 from 52.7 in August. As the outlook for the farm sector has improved significantly, farmers have likewise expanded their purchases of capital equipment. I see this very positive trend continuing for the rest of 2010.

Banking: For a seventh straight month, all bank indicators were above growth neutral. The loan-volumes index increased to 57.4 from 54.2 in August. For September, the checking-deposit index improved to 65.6 from August’s 59.1. The index for certificates of deposit and other savings instruments inched higher to 55.0 from August’s 54.2.

Jobs: The September hiring index increased to a still weak 46.0 from 45.9 in August. Many areas in the Rural Mainstreet area are still losing jobs. However over the past year, Rural Mainstreet has added jobs at a 1.5 percent pace and well above urban job growth.

Retail sales: Much like other elements of September’s survey Rural Mainstreet retail sales increased to a sub-par 45.2 from September’s 40.2. Despite a weak report for the month, bankers were much more optimistic. The economic confidence index, which reflects expectations for the economy six months out, grew to 54.9 from 46.0 in August.

Home sales: Home sales declined again with a reading of 47.6, which was up from an index of 38.8 in August. This is the third straight month that the reading has slumped below growth neutral 50.0. Nancy Ruyle, CEO of Citi-zens Bank in Rogersville, Mo., indicated that while there were home sales for the month, it was not sufficient to make a big difference in the housing market.

Special questions: This month bankers were asked when they expected the Federal Reserve (Fed) to begin raising short-term interest rates. Almost one-fourth, or 23 percent, expect a rate hike in the first half of 2011, and 55 percent anticipate a rate increase in the second half of 2011. More than one-fifth, or 22 percent, anticipate a Fed interest rate increase beyond 2011. None of the bankers expect a rate increase in 2010. This month bankers were also asked about the share of households in their area that could take advantage of home-based businesses requiring broadband access. More than one-third, or 36 percent, indicated that 60 percent of households in their area could handle home-based jobs requiring broadband access.

Each month, community bank presidents and CEOs in nonurban, agriculturally and resource-dependent portions of the 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included. This survey represents an early snapshot of the economy of rural, agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy.

MAINSTREET ON YOUR STREET

COLORADO

Colorado’s RMI for September moved below growth neutral to a weak 42.8, but up slightly from 42.0 in August. The September farmland and ranchland price index increased slightly to 53.8 from 52.8 in August. Colorado’s farm equipment-sales index improved to 53.8, from 50.2 in August. The rate of job losses for Rural Mainstreet Colorado over the past 12 months was 1.9 percent.

ILLINOIS

For a fifth straight month, Illinois’ RMI advanced above growth neutral. The September reading was 52.5, up from 50.3 in August. For an eighth straight month, farmland prices advanced above growth neutral with a September reading of 60.1, up from 57.5 in August. Farm equipment-sales for September expanded to 58.6 from 54.4 in August. The rate of job gains for Rural Mainstreet Illinois over the past 12 months was 3.8 percent.

IOWA

Iowa’s RMI slipped below growth neutral for the month with a September reading of 48.2, but was up slightly from August’s 48.0. The farmland- price index expanded to 58.0 from August’s 55.8. The state’s farm equipment-sales index grew to 56.5 from 53.2 in August. The rate of job gains for Rural Mainstreet Iowa over the past 12 months was 0.2 percent.

KANSAS

The RMI for Kansas declined below growth neutral 50.0 for the month. The index stood at a still weak 48.1, up from August’s 46.8. The farmland-price index increased to 57.9 from 55.2 in August. The September agricultural equipment-sales index rose to 56.4 from 52.6 in August. According to Dale Bradley, CEO of Citizens State Bank in Miltonvale, “The economy is one headache for rural banks and in addition to that we will see much more in the way of rules and regulations due to the Financial Reform now in place.” The rate of job gains for Rural Mainstreet Kansas over the past 12 months was 1.4 percent.

MINNESOTA

The RMI for Minnesota climbed to 52.2 from August’s 50.1. Minnesota’s farmland-price index rose to 60.0 from 55.2 in August. The September agricultural equipment-sales index stood at 58.5, higher than August’s 54.2. The rate of job gains for Rural Mainstreet Minnesota over the past 12 months was 2.9 percent.

MISSOURI

The RMI for Missouri dipped to 43.5 from August’s 44.5. The September farmland-price index for Missouri climbed to 55.6 from 54.0 in August. The September farm equipment- sales index advanced to 54.1 from 51.4 in August. Don Reynolds, president of Regional Missouri Bank said that, “Early corn yields were down somewhat.” The rate of job losses for Rural Mainstreet Missouri over the past 12 months was 2.4 percent.

NEBRASKA

The September RMI for Nebraska moved higher to 50.4 from August’s 48.7. The farmland-price index for September climbed to 59.1 from 56.1 in August. The state’s farm equipment-sales index grew to 57.6 from August’s 53.5. The rate of job gains for Rural Mainstreet Nebraska over the past 12 months was 2.3 percent.

NORTH DAKOTA

North Dakota’s RMI advanced to 52.8 from 51.5 in August. North Dakota’s farmland-price index increased to 60.3 from 57.5 in August. Farm equipment-sales for September stood at 60.2, well up from 54.9 in August. According to DeWayne Streyle, CEO of United Community Bank of North Dakota in Leeds, “Wet weather conditions continue to delay harvesting while oil drilling continues to increase in northwest North Dakota.” The rate of job gains for Rural Mainstreet North Dakota over the past 12 months was 3.8 percent.

SOUTH DAKOTA

For a second straight month, the RMI for South Dakota sank below growth neutral. Still, the index for September advanced to 48.1 from 47.0 in August. The state’s farmland-price index climbed to 58.0 from 55.3 in August. South Dakota’s farm equipment-sales index was 56.5, up from 52.6 in August. The rate of job gains for Rural Mainstreet South Dakota over the past 12 months was 0.3.

WYOMING

The state’s RMI for September slumped below growth neutral with a reading of 46.8, but up from August’s 44.3. The September farmland and ranchland -price index rose to 57.3 from 54.0 in August. The state’s agriculture equipment sales advanced to 55.8 from 51.4 in August. The rate of job gains for Rural Mainstreet Wyoming over the past 12 months was 0.8 percent.

THE BULLISH NEWS

- While the overall economy lost 95,000 jobs in September, the private sector added 64,000 jobs. I assess it as a “not bad” report.
- A gauge of corporate credit risk in the U.S. fell to a five-month low as a bigger-than-estimated decline in the nation’s payrolls last month bolstered bets the Federal Reserve will increase asset purchases to support the economy.
- The U.S. Labor Department reports the number of initial jobless claims fell by 11,000 last week to 445,000. That’s the lowest it has been in three months.
- The ISM manufacturing index came just a bit better than expected, at 54.4, versus the 54 consensus.

THE BEARISH NEWS

- According to the Mortgage Bankers Association, 9.5% of loans were delinquent by 90 days or more in the first quarter of 2010.
- The Conference Board Measure of CEO Confidence™, which was unchanged in the second quarter of 2010, declined in the third quarter. The Measure now reads 50, down from 62 last quarter (a reading of more than 50 points reflects more positive than negative responses).
- The Conference Board Consumer Confidence Index®, which had improved in August, retreated in September. The Index now stands at 48.5 (1985=100), down from

53.2 in August. The Present Situation Index decreased to 23.1 from 24.9. The Expectations Index declined to 65.4 from 72.0 last month.

- During the first 8 months of this year, construction spending amounted to \$539.4 billion, 11.2% below the \$607.5 billion for the same period in 2009.

WHAT TO WATCH

- On Oct. 15, the BLS releases the consumer price index for September. While I don’t expect it, an increase in the core inflation gauge for the month greater than 0.2% would be bearish and put the Fed between a “rock and a hard place.”
- On Oct. 29, the Bureau of Economic Analysis (BEA) releases its advance GDP number for the 3rd quarter. Annualized growth of less than 1.0% will be very bearish.
- On Nov. 5th, the U.S. BLS will release the employment report for October. A decrease in the unemployment rate (which I expect) and positive job growth will be bullish.
- Watch monthly housing data from U.S. Census. Until the numbers look much better, the economic turn-around will be anemic.

THE OUTLOOK

FROM GOSS:

- The moratorium on foreclosures will hurt the economy. The longer it takes for the housing market to bottom out, the longer it will take our economy to recover. A moratorium on foreclosures will slow the housing recovery, because it puts off the pain for a later date.
- A continuing U.S. economic expansion (GDP growth above 2.5%) assuming Congress and the President agree on extending the Bush tax cuts before the end of 2010.
- November’s job report to show an upturn in hiring though still weak with unemployment declining to a lousy 9.4%.

CONFERENCE BOARD:

- GDP growth for Q1, 2011 to be 1.4% (annualized and seasonally adjusted)
- Housing starts for Q1, 2011 to rise to 680,000.

NATIONAL ASSOCIATION FOR BUSINESS ECONOMICS (NABE) AUGUST SURVEY:

- Nearly 60% percent feel that monetary policy posture is appropriate at the present time and that the greater risks facing the U.S. economy are deflation in the near term and inflation in the longer term
- The majority of the respondents also do not believe another stimulus package is necessary but think the various tax cuts should be extended beyond their scheduled expiration at year-end

- 39% feel that the current posture of fiscal policy is appropriate, down from 44 percent in March. Over 75% oppose another stimulus package but rank promoting economic growth a higher priority than deficit reduction.

REUTERS SURVEY:

- 16 primary dealers expect the U.S. central bank to lower long term rates with 14 of 15 respondents calling for an announcement at the end of the Federal Open Market Committee’s next policy meeting on November 3. The remaining one of the 15 respondents said the program would be announced in November or December.

Goss Eggs (Recent Dumb Economic Moves)

- Before exiting for their fall break, the U.S. House, by a wide bipartisan margin of 348-79, passed a bill giving the executive branch authority to impose tariffs on a wide range of Chinese exports. U.S. manufacturers and farmers will be the big loser as China retaliates.

The Federal Reserve Actions Are Hurting, Not Helping

Next month, the Federal Reserve (Fed) interest rate setting committee, the FOMC, meets to consider changes in rates. Unfortunately for the U.S. economy, they have telegraphed that they intend to exercise more quantitative easing (QE). What this means is that they have exhausted traditional weapons to combat the economic malaise and they intend to engage in the unconventional policy of buying long term U.S. Trea-sury bonds. This policy has the impact of reducing long term interest rates and pumping more dollars into the economy. There are two problems with this policy. First, long term interest rates and mortgage rates are already at historic lows. Lower rates will not stimulate greater consumer spending or home buying. In fact by telling families that rates will remain low for the foreseeable future, potential home buyers are encouraged to delay the purchase in hopes of a lower home price combined with even lower mortgage rates down the road. Second, pumping more dollars into the system will result in excessive inflation as early as the second half of 2011, even more asset price bubbles (e.g. gold) and a fragile U.S. dollar. This will generate another round of economic unwinding in the near term. So what should the Fed do? They should indicate that they will soon begin raising interest rates. This will encourage some home buyers that are currently on the fence to buy that new home. It would also shore up the confidence of investors and business owners who gauge QE as an extreme measure conveying Fed panic. As the old saying goes, “when you’ve dug yourself into a hole, quit digging.” Ernie Goss.

BANKER READING ROOM

“Obama doesn’t support foreclosure moratorium,” Inman News, Oct. 11, 2010. The Obama administration does not support a national foreclosure freeze, but attorneys general in as many as 40 states are reportedly planning this week to announce a joint investigation of loan servicers’ foreclosure practices that could have similar repercussions. The fallout from the “robo signing” scandal, initially confined to 23 states where courts have jurisdictions over foreclosures, expanded in dramatic fashion Friday with Bank of America’s announcement that it would stop foreclosure sales in all 50 states until it completed a review of its foreclosure procedures. Bank of America and four other loan servicers have slowed or halted some foreclosure proceedings in 23 judicial foreclosure states in the wake of allegations that workers processing files for the companies signed affidavits that contained information they had not personally verified. Other loan servicers taking action to date are GMAC Mortgage, JP Morgan Chase, PNC Financial Services Group Inc. and Litton Loan Servicing. Lenders maintain the issues that have been raised are procedural, and that they will ultimately be able to demonstrate that they had the right to take action against borrowers they have foreclosed on. Bank of America said Friday that its ongoing assessment of the company’s past practices “shows the basis for foreclosure decisions is accurate.”