

President's Message



This month marks the beginning of my 34th year in banking. For some of you that may be a small number, while for others that puts me in the ancient category. I have been fortunate to have lived in the same community my entire banking career. I have seen the financial struggles and rewards of many of my customers, friends and neighbors and am now experiencing the joys of banking the 2nd and in some cases 3rd generation. While it has been and continues to be a wonderful experience, one can develop tunnel vision if you do not have access to what is happening in the rest of the world.

One of my great joys is getting to know people that have a different background and consequently a different perspective of world affairs. I recently had the opportunity to visit with a gentleman from Italy. Our paths crossed due to a mutual acquaintance. This gentleman made a couple of comments that have stuck with me as I ponder the future. He stated that he has not found a better investment than land in Midwest America, that commodities will continue to be volatile (he is a commodity broker) and that America has a well thought out and a well maintained infrastructure, second to none. His comments reiterated what I already knew, but often take for granted.

How does this fit ICBSD and community banking? I believe first and foremost community banks and their employees are tied to their communities and feel a depth of responsibility not possible by large publicly traded banks. Banking within a community bank structure tends to encourage decisions that will positively affect the future, not only for the bank but the community. It is much like my acquaintance from Italy said, "There is not a better place to do business than Midwest America." He recognized that the decisions are often made with the best interest of our communities and region for the long-term in mind. Oh, by the way he picked as a business partner a community bank rather than a large publicly traded bank.

If you are like me, I can generally understand the Durbin Amendment and the Communities First Act and other debates being held on the national scene but seldom have the time to address them in a way that would have a positive long-term impact. So, what do we do? I believe the answer is to continue our support of our National ICB organization. This can be done in many ways. One way is to receive the daily ICBA Newswatch Today. I would encourage you to sign up at info@icba.org if you have not already. This is a wonderful site to keep you up to date on what is happening on the national banking scene.

Your local ICBSD continues its effort to bring you events that will assist your organization. Our annual CEO and Directors' Conference featuring Philip Smith of Gerrish McCreary Smith, PC and Mark Stenson of Stenson Management Consulting, Inc. on October 19th and 20th at the Best Western Ramkota in Sioux Falls should be a good event and worth your time to attend. Philip's presentation is titled "*The Community Bank Report Card: Grading How My Bank Is Doing*" and Mark's presentation is titled "*Key Elements to Improve the Performance of your Community Bank*". I hope to see you in Sioux Falls on the 19th and 20th.



Lance Koth
President

National Director's Report



First of all, I would like to welcome our new Executive Director, Geri Beck. She has hit the ground full speed. You can look forward to meeting her in person as she intends to do a lot of driving to each of our communities to meet the membership. She admits the need to be brought up to speed on many banking issues that we face every day and looks forward to meeting with each of us to gain our perspectives. Geri will be a great asset for our Association.

I would like to say thank you to Ginger for all of her dedicated service to each of us, not only through the ICBSD office, but through her dedication to our industry each and every day. Ginger has been a good friend and a great leader in the banking industry. One of my favorite months is here. With it, I look forward to the hunting seasons which I enjoy very much. The harvest in our area is just starting. We have had some very nice weather for it. Our growing season, like many others has been dry for most of the summer. Our farmers are upbeat, talking about good crops, though, and looking forward to a great harvest.

Each of us is busy with all that we do. I would like to ask that each of you take a look at the ICBA-advocated Communities First Act (CFA). We, as community bankers, need to make a much-needed push to build support for the regulatory relief bill by calling and writing Senators Johnson and Thune to urge support. ICBA makes it easy for community bankers to get in touch with their senators via CBConnect, the association's grassroots website. Sen. Jerry Moran (R-Kan.) recently introduced the Senate version of the bill (S. 1600), which will reduce regulatory and tax burdens on community banks and narrow the competitive gap with tax-exempt credit unions. The CFA is essential to help community banks continue to service their communities effectively. We need to have all associations that represent community banks support this bill. Currently, the ABA is not supporting this bill and one needs to ask the question, why?

On a positive note, I received my FDIC assessment statement the first of September and was pleased to find that the fees were much less. This is a good example of what we as an industry can do when we work together at a grassroots level to achieve our goals. Have a good fall season! Take time to be with your family and may you be blessed. As always, I look forward to all your questions, comments, or concerns. You may contact me at dbehl@fmsbscotland.com.

Dick Behl
ICBA Director for South Dakota

**It's not too late to register for the
CEO/Directors' Conference
October 19-20 at the Sioux Falls Ramkota**

(more on page 3)



Executive Director's Report

'Fast and furious' is how I'd describe the first eight weeks at the ICBSD! Thank you to those of you who have taken the time to visit with me at your office or over the phone. I've greatly enjoyed getting to know you and appreciate you sharing your insight and advice. I'm hearing, over and over, that complying with all of the regulations that our industry is facing is your largest headache and a key area that the ICBSD needs to invest time and energy addressing.

With that in mind, I want to encourage you to take National Director, Dick Behl's suggestions to heart and reach out to Senators Thune and Johnson and Representative Noem asking them to not only support the Communities First Act (CFA), but also to be a co-sponsor. According to Brian Cooney, Legislative Counsel with ICBA, co-sponsors for both bills are being sought and conversations are occurring with the South Dakota delegation. Now would be an opportune time to reach out and ask our Senators to consider being a co-sponsor for S. 1600, the Senate's version of the Communities First Act and Representative Noem to be a co-sponsor for H.R. 1697, the House's version of the CFA. The ICBSD has joined other state community banking associations in signing a letter to all Senators and Representatives asking for their support. We have also reached out to the South Dakota Banking Association asking them for their support and sharing information with them about the CFA. ICBA has a terrific 'tool kit' at cbconnect.org. Talking points, the actual bills, and section-by-section explanations of the legislation are available. **If I can be of any assistance, please let me know!**

In closing, I'd like to thank you for the opportunity to be your executive director. I look forward to meeting many of you at the CEO/Directors' Conference!

Geri Beck, Executive Director, ICBSD can be reached at 605-996-9329 or geri@icbsd.com



OVERRATED - By Jim Reber, ICBA Securities

WHAT'S THE BIG DEAL ABOUT A AAA RATING?

Late July 2011. The failure to reach an agreement on the handling of the growing national debt, Standard & Poor's warned quite transparently, would likely trigger a downgrade of Treasury borrowings. Congressional leaders, business editors, administration officials, and many bankers were unanimous in their conclusions about such an unprecedented step. It would be unmitigated disaster.

"Decades-long repercussions" opined one pundit. "Irrevocable loss of prestige" claimed another. "Irresponsibility of the highest order" offered a federally-elected official. "Soaring costs to the taxpayer" was the refrain of more than one economist. One has the image of the scene from the classic movie "Monty Python and the Holy Grail," in which King Arthur's motley crew arrives at a fork in the road in the midst of a dense forest. The two options for travel are "Death" to the left, and "Certain Death" to the right.

So the half-baked solution agreed to by Congress and the administration did not impress S&P, which summarily made good on its threat and downgraded all outstanding Treasury obligations, and government agencies for that matter, to AA+ from AAA. The global bond market's reaction? Yields pushed down to record lows.

Confluence of Factors

To be fair, there were other factors at play. For one, shortly after the downgrade on August 5, the Federal Open Market Committee concluded a meeting in which it pledged to keep short-term rates "exceptionally low at least through mid-2013." For another, Europe was, and is, struggling with its sovereign debt crisis. For another, neither of the other two major ratings agencies changed their stances. Add to this the statement by the federal banking regulators that the risk weightings were not going to change. Treasury issues would retain their zero percent risk weighting, and agencies would stay at 20 percent. This also contributed to investors not fleeing for the exits. So the question has come around to asking: what's the big deal?

Does Rating Matter?

In a word, yes, rating does matter. Large institutional buyers, particularly bond mutual fund managers, often have to abide by the fund's requirements to maintain certain average risk weightings, which are affected by credit ratings. On financial data sources like Bloomberg, a user can view the differences in yields for a bond sector such as corporates or municipals, stratified into AAA, AA, A and other curves. So rating does affect yield.

Our central bank and the U. S. Treasury, for all their faults, are still stewards of the world's preferred currency. A case can be made that they are managing the economy through these difficult times fairly well. So the real cause of interest rates falling in the face of S&P's downgrade is the fact that Treasuries are unique. And, in this time of global economic uncertainty, if not crisis, Treasuries remain a very safe haven.

Stay on Top

ICBA Securities can help you keep up with the credit ratings of your bond portfolio. First, the majority of most portfolios consist of government agency debt. Most agency debt is in the form of Fannie Mae and Freddie Mac product, both tradition bonds and mortgage-related issues. Since the U.S. Treasury is the sole shareholder in Fannie and Freddie, they also carry the Treasury's credit ratings, as does the Federal Home Loan Bank. So you can rest easy there.

For the municipal bond portion of the portfolio, which is the vast majority of the remainder, we will create for you a document known as the Municipal Monitoring Report. It will list each position in CUSIP number order, highlighting the insured and underlying ratings, and will bring to light those that are either unchanged for two years or those below AA. It is designed for you to quickly view potential problems in your munis, and to be able to share this with your examiners as well.

Conclusions

When an issuer has its ratings changed, the market quickly takes notice, and spreads either widen or narrow. Bank of America, Citigroup and Wells Fargo all were downgraded in September, and their yields rose, which is totally logical. Uncle Sam is a different case. He, and only he, can see the opposite reaction. So your bank's investment portfolio may have some built-in insulation, but the advice is to use your brokers and advisors to stay abreast of specific credit ratings changes for the muni and corporate portions of your portfolio.

ICBA Securities can create a Municipal Monitoring Report on a complementary basis for any community bank. Contact your ICBA Securities sales rep or visit www.icbasecurities.com for further information.

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

TECHNOLOGY CAREER DAY

The ICBSD and Dakota State University paired up to hold Technology Career Day on Tuesday, September 27. Thirty-five students from 14 high schools traveled to Madison to delve into hot technological topics including cell phone hacking, ethical hacking and computer forensics. Students learned about cell phone spyware and learned that by 2013 it's expected that between 53 and 108 million people will be doing mobile bank (in contrast to 10 million today).

Dr. Kevin Streff, founder of Secure Banking Solutions and an Associate Professor at DSU led the cell phone hacking session which received rave reviews, shared, "ICBSD Technology Career Day represents DSU and ICBSD's commitment to educating South Dakota youth and building the next generation of workforce. ICBSD member banks pay most of the bills to make this opportunity happen, and we are thankful for their generosity and commitment to their communities."

Kelly Eismann, Loan Officer at First State Bank of Roscoe left Mobridge at 4:30 a.m. in order to drive four students to DSU. Kelly said, "Technology Career Day was a great way for students to learn the different fields, careers, and course offerings in the rapidly changing world of technology. Even being a former computer teacher I was surprised at some of the technology out there today. I don't think most high school students are aware of some of the exciting careers they can prepare for right here in their home state along with great opportunities for financial support while they are getting their education in the field of technology."

Twelve ICBSD member banks sponsored students by providing transportation for the day and the ICBSD Office and DSU provided lunch. Watch for more news in the near future about next year's event and be sure to get the date on your calendar!



High school instructors, students and bank representatives shown at the opening session of Career Technology Day.



Dr. Michael Tu leads the Computer Forensics session.



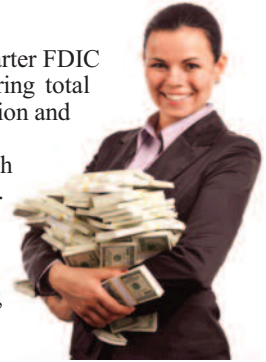
A student raises a question during the Cell Phone Hacking presentation.

SHARE YOUR ASSESSMENT SAVINGS\$ and EARN A CHANCE to ATTEND the ICBA NATIONAL CONVENTION FOR FREE!

ICBA is encouraging community bankers to tell the association how much they're saving on second-quarter FDIC deposit-insurance assessments with ICBA's new FDIC Assessments webpage icba.org/fdicsavings/. Entering total assessment savings will qualify community bankers for a drawing for one free 2012 ICBA National Convention and Techworld registration, valued at \$1,295.

ICBA was the only national banking trade association to support the new deposit-insurance system, which is based on average total consolidated assets minus average tangible equity instead of total domestic deposits. The new deposit-insurance system will lower assessments for 98 percent of institutions with less than \$10 billion in assets, saving community banks roughly \$4.5 billion over the next three years.

Community banks have been reporting savings as high as 50 percent on their assessments. So let ICBA know how much you saved for a chance to experience the premiere community banking event in the nation, scheduled for this March in Nashville, TN.

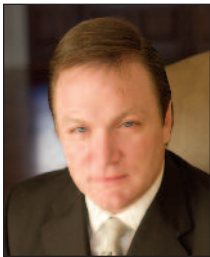


2011 CEO/DIRECTORS' CONFERENCE It's Not Too Late

It's not too late to register for the 2011 CEO/Directors' Conference, but the window of time is growing small! The CEO/Directors' Conference will be held on Wednesday evening, October 19 and all day Thursday, October 20 at the Sioux Falls Ramkota. The conference promises to be an enlightening event for bank presidents and board of directors including two highly rated speakers: Philip Smith, President of Gerrish McCreary Smith, PC and Mark Stenson, President of Stenson Management Consulting, Inc.

Philip Smith's Thursday morning presentation will focus on evaluating how your bank is doing and how to prepare for the continuously changing banking environment while Mark Stenson's afternoon presentation will focus on improving the performance of your bank including hiring the best people, improving your bank's bottom line and measuring and improving productivity. Wednesday evening's banquet will include a greeting and comments from Governor Dugaard's Chief of Staff, Dusty Johnson. Dusty is a lively speaker and promises to be informative, entertaining and brief! At Thursday morning's breakfast, Benjamin J. Ready, Economic Development Advisor for Senator John Thune will also share remarks. An invitation has been extended to have a representative from Senator Johnson's Office attend lunch and share comments.

To register, please contact Geri Beck at the ICBSD Office or e-mail her at geri@icbsd.com or call 605-996-9329. Make your lodging reservation directly through the Sioux Falls Ramkota at 605-336-0650. Ask for the ICB Block, depending on room availability, you may be able to get the group rate.



Philip K. Smith



Mark Stenson



Dusty Johnson

FROM THE TOP - *Sal Marranca, Chairman of ICBA* A STORY OF GIVING BACK



Nearly every day community bankers inspire me as I serve as your ICBA chairman. While traveling to dozens of meetings and events, I've learned much more about how community banks are making their Main Street communities better places to live and work. By freely offering their time, talents and special knowledge, ICBA members are doing everything from promoting financial literacy, jumpstarting economic development projects, sustaining civic celebrations and cultural arts programs, and helping with the work of nonprofit charities.

Many community bank efforts are down payments for the future. One heartening example is a leadership program for high school seniors conducted by First Southern State Bank in Stevenson, Ala. The bank's president, Mike Ellenburg, told me about the First Southern Young Leaders program during a Community Bankers Association of Alabama gathering. Kicking off its ninth year last month, the program allows about 25 active and academically talented seniors to learn about leadership and explore long-term career choices. Each year about 100 students from five local high schools apply and are interviewed to participate.

Ellenburg gives an overview of the banking system, including how community banks help all kinds of businesses and business professionals succeed. He also talks about the importance of business leaders giving back to the communities that support their livelihoods. Doctors, lawyers, engineers and other business professionals also give the students real-world insights about their professions. Questions such as their daily work routines, the salaries they bring home and their academic requirements are addressed upfront.

In addition to team-building exercises and completing a community service project, the program takes the seniors on special field trips to tour university programs in the region. The students also visit the Federal Reserve Bank in Atlanta.

Ellenburg started the First Southern Young Leaders program after his bank participated in a student leadership program by the Community Bankers Association of Alabama on lawmaking at the state level. He said the effectiveness of the CBAA program's out-of-classroom experiences, including meetings with lawmakers and the state's governor, sparked the idea for a local career-oriented program. Today, the First Southern Young Leaders program is coordinated by five employees—Stacey Crabtree, Jeff Smith, Scott Kirk, Chris Richey and Justin Mayhew—who work with guidance counselors at the participating high schools. By the end of the seven-month program, sometimes students switch career paths. However, most of the students, even the initially shy ones, become more confident and outgoing. Most form several lasting friendships as well as future networking contacts.

Already, the First Southern Young Leaders program is beginning to make an impact. Several college graduates who went through the program have returned to their hometowns, obtained valuable jobs and, in particular, are giving back to their communities in various creative ways. The bank has employed several of the students, and some are considering banking careers.

With this year's program underway, more future leaders are on the way. The future is brighter for these communities, and for community banking. Knowing that this is just one of hundreds of innovative programs community banks are creating and maintaining around the country is exciting. The cycle of giving back is as strong as ever on Main Street.

Sal Marranca is President and CEO of Cattaraugus County Bank in Little Valley, N.Y.

FINE POINTS - by *Camden R. Fine*



A TEST CASE ON TBTF

That every long journey begins with a single first step applies to today's rare bipartisan agreement in Washington over reversing the decades-long momentum of ever greater financial concentration. Most federal policymakers have vowed to end too-big-to-fail (TBTF) so our country never again faces the unacceptable Hobson's choice of either bailing out irresponsible Wall Street institutions or suffering apocalyptic financial ruin.

Since Congress put in place several ICBA-backed measures to rein in and even possibly break up the largest bank and nonbank financial institutions, no definitive action has been taken to back our country away from the cliff edge of financial overconcentration. Regulators are still putting in place the systemic-risk measures in the Dodd-Frank Wall Street Reform Act. However, four years after the financial crisis no giant financial institution has been told that its once unstoppable appetite to grow ever bigger through unquestioned mergers and acquisitions is a thing of the past.

Now the Federal Reserve faces this crucial first step. After holding three public hearings in September and this month, the Federal Reserve must decide whether to approve or deny a proposed acquisition by Capital One of \$80 billion in U.S. banking deposits from ING Direct, the Dutch-owned online banking unit in the United States. If allowed, the acquisition would catapult Capital One from being the eighth-largest bank in the United States to being the fifth-largest with \$300 billion in assets. Combined with Capital One's announced plans to purchase the \$80 billion HSBC Holdings' credit card business in the United States, the ING acquisition would only fuel Capital One's lopsided growth in the volatile specialty business of subprime credit card lending.

Increasing Capital One's overwhelmingly dominant holdings in subprime credit cards—none of its rivals even comes close—would quietly make Capital One as interconnected and “systemically important” as giants Bank of America and Citicorp.

By law and its own public notices, the Federal Reserve must consider whether the Capital One acquisition would create “undue concentration of resources,” cause “decreased or unfair competition” or impose greater “risk to the stability of the United States banking or financial system.” For each criterion, Capital One's application fails. Now it's up to the Federal Reserve to simply say so. But as important, it's up to the Fed to send a clear signal to Wall Street and all of America that federal regulators are serious about ending TBTF.

When the Wall Street Reform Act passed Congress earlier this year, community bankers understandably had great hopes that TBTF would become a relic of history and that they would once again compete on a more level playing field. To the contrary, nothing has changed since the financial crisis. The largest 10 bank holding companies still control nearly 80 percent of the banking industry's total assets and the largest four still hold 46 percent of the industry's assets, the same as it was in 2005.

Join ICBA in pressing the case against Capital One's acquisition of ING. Let's take this next crucial step together in addressing TBTF. And, of course, it will only be a first step on the long journey ahead.

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



Ginger Snap

Thank You So Much to the Independent Community Bankers of South Dakota for my wonderful Retirement Reception, held recently in Mitchell. I know that many of you put on quite a few miles to come. It was very rewarding to have almost all of the ICBSD presidents, during my seventeen years, in attendance. There are no real words to express my gratitude for the overwhelming amount of cards, well-wishes, remembrances and gifts that I have received. I was fortunate to hold a position, for so long, that I absolutely loved and enjoyed. I am grateful to know that I am leaving with a huge network of friends, and established relationships, across the state and entire country. I do plan to stay in touch with many of you, as much as possible. I will always believe in what community banking provides for South Dakota and across the nation. I am very aware of what the future holds for all of you but also know you are ready for the many challenges. Best Wishes to each and every one of you!

Ginger Adams, 605-770-8940, gadams@midco.net

DIRECTOR'S COLUMN



Terry Torgerson

It's hard to believe summer has passed and fall is here. Of course, summer got a late start but it has been a great fall so far. I hope everyone has a chance to get outside and enjoy it. It truly is a great time of year.

First, I would like to congratulate Ginger on her retirement! Ginger gave her all to this organization for seventeen plus years! She truly believed in our organization and in community banking. She was respected by not only her South Dakota

community banking family, but also by our national affiliates and her fellow state executive directors. This was very apparent in all the comments made about her at her retirement party, the retreat, and the letters she received. I know one of Ginger's great joys was watching our children grow up at the retreats. She was always amazed that they would continue to come as they got older. Some of your children started coming at a very young age and continue to come year after year. Now those children are young men and women out making their mark on the world! That is what the retreat is all about! Ginger, THANKS for everything you did for the Independent Community Bankers of South Dakota, our families, and for keeping us all a little more organized!! Although, I'm not sure how a bunch of unorganized, fly-by-the-seat-of-your-pants bankers, put together a retirement party for one of the most organized and structured people I have met! It just goes to show what a little teamwork can do!

I would also be remiss if I didn't say 'Thanks' to everyone who helped organize Ginger's retirement party. It was a real TEAM effort. I also want to thank everyone who attended the event. It meant a lot to Ginger and it was a great evening.

I also want to welcome Geri Beck aboard as our new Executive Director. She has hit the ground running and has been out meeting with a number of you and gathering your input. Please take time to visit with Geri as she makes her rounds. There is a vast amount of knowledge out there and she would love to have you share it with her.

I hope to see everyone at the CEO/Directors' Conference on October 19th and 20th. And as always, stay in touch and stay involved.

Terry Torgerson is the Senior Vice President of CorTrust Bank in Mitchell and is an ICBSD Board Director.

U.S. SAVINGS BONDS

Resources Available to Help Inform Customers About Ending Over-the-Counter Sales of U.S. Savings Bonds

The U.S. Department of the Treasury announced it will end over-the-counter (OTC) sales of paper savings bonds on December 31, 2011. While paper bonds will no longer be sold at financial institutions, electronic savings bonds remain available for purchase through TreasuryDirect, a secure web-based system operated by the Bureau of the Public Debt.

The Treasury Department is offering a free tool kit to help financial institutions easily communicate the change to customers about the end of OTC sales of paper U.S. Savings Bonds. The tool kit contains:

- fliers for customers
- short messages for account statements
- frequently asked questions (FAQ) for employees
- web banners
- an article for employee newsletters or Intranet

All can be downloaded at www.treasurydirect.gov.

Financial institutions are asked to educate their customers about the change and to continue redeeming the more than 670 million paper savings bonds worth \$181 billion that are currently in the hands of the public. Discontinuing paper savings bond sales is expected to save taxpayers an estimated \$70 million over the next five years.

For more information, visit www.treasurydirect.gov.

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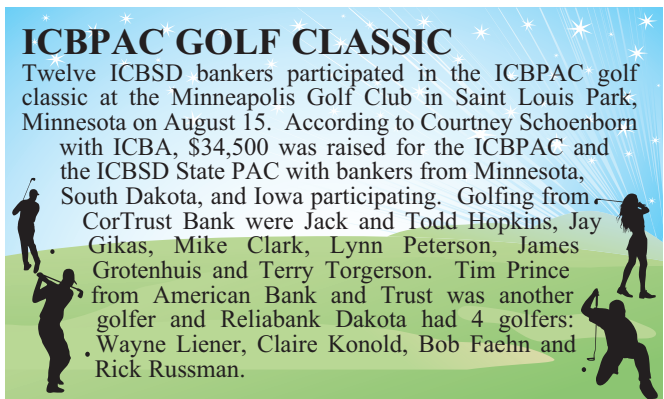
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www.icbsd.com

ICBPAC GOLF CLASSIC

Twelve ICBSD bankers participated in the ICBPAC golf classic at the Minneapolis Golf Club in Saint Louis Park, Minnesota on August 15. According to Courtney Schoenborn with ICBA, \$34,500 was raised for the ICBPAC and the ICBSD State PAC with bankers from Minnesota, South Dakota, and Iowa participating. Golfing from CorTrust Bank were Jack and Todd Hopkins, Jay Gikas, Mike Clark, Lynn Peterson, James Grotenhuis and Terry Torgerson. Tim Prince from American Bank and Trust was another golfer and Reliabank Dakota had 4 golfers: Wayne Liener, Claire Konold, Bob Faehn and Rick Russman.



THE MAINSTREET ECONOMY REPORT

October 2011

“A monthly survey of community bank CEO’s”

The Impact of the Buffett Tax: Adding Jobs at H&R Block?

As part of its 2011 Jobs Bill, the Obama Administration has proposed the “Buffett” tax to snare millionaires that are not paying what President Obama calls their “fair share.” White House Communications Director Dan Pfeiffer reported in a tweet that the tax would “act as a kind of AMT.” Let’s hope not!! In 1969 the Minimum Tax was passed to be rebranded in 1982 as the Alternative Minimum Tax (AMT). The original goal was to hook 155 high-income households that paid no federal income taxes. Currently more than half of AMT tax collections come from taxpayers making between \$150,000 and \$200,000 and it is estimated that by 2015 over 50 million Americans will pay the AMT. As expected, millionaires thwart the original intent of the AMT by hiring tax experts that insure that they avoid the punitive tax. They will likewise sidestep the Buffett tax with the burden falling on thousandaires. What should instead be done? The U.S. Congress and Obama Administration should immediately undertake fundamental tax reform that eliminates tax loopholes and deductions that are contrary to economic growth. This action would then allow overall tax rates to be lowered for all. Here is an example of a tax loophole that should be eliminated. In 2010, a taxpayer could buy an energy efficient diesel SUV that is used in his/her business and receive a tax credit of \$1,800. So far, so good. However, if the SUV weighs more than 6,000 pounds, the taxpayer could take an additional tax deduction of up to \$25,000. Only tax preparers at H&R Block can appreciate the onerous tax code that encourages both energy efficiency and gas guzzling. Adding the Buffett tax will serve only to add more tax goodies such as this for those able to hire astute tax attorneys and accountants. Ernie Goss

MAINSTREET RESULTS

Rural Mainstreet Rebounds for September:

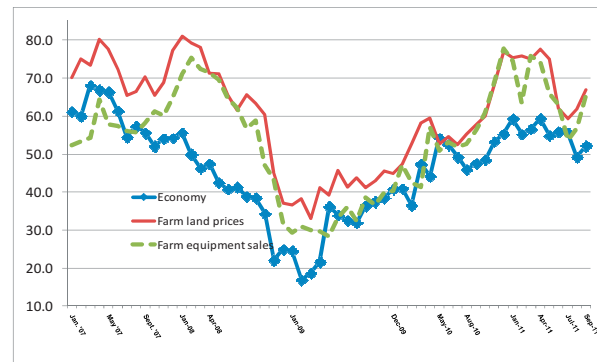
Many Report Significant Cuts in Infrastructure Spending

Tables 1 below summarizes the findings from the September 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 2010	Aug 2011	Sep 2011
Area Economic Index	47.6	49.36	52.2
Loan volume	57.4	62.1	62.5
Checking deposits	65.6	55.4	60.3
Certificate of deposits	55.0	40.2	41.2
Farm land prices	57.7	61.9	66.9
Farm equipment area sales	56.2	56.9	65.4
Home sales	47.6	49.3	48.5
Hiring in the area	46.0	49.3	54.7
Retail Business	45.1	47.8	47.1
Economy 6 months from now	54.9	44.0	50

- Rural Mainstreet Index bounces higher for the month
- Almost a third of bankers report dramatic cuts in infrastructure spending in their area over the past three years.
- As a component of President Obama’s latest jobs bill, less than half of bankers are supportive of the infrastructure spending.
- Farmland price growth bounces above last year’s levels.

Rural Mainstreet, Jan. ‘07 – Sept. ‘11



After moving below growth neutral 50.0 in August, the Rural Mainstreet Index (RMI) once again rose into positive growth range for September indicating that the rural agriculturally dependent areas of the region are growing but at a very slow rate, according to this month’s survey of bank CEOs in a 10-state region. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, advanced to 52.2 from 49.3 in August. This is the first increase after three straight months of declines. Creighton University economist Ernie Goss said, “While our survey results over the past several months do not indicate recessionary economic conditions, they clearly show that Rural Mainstreet economic growth is slowing.” Goss and Bill McQuillan, CEO of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005. According to Kent Shurtleff, CEO of Wyoming National Bank in Riverton, Wyo., “What is curtailing our business is superfluous regulation.”

Farming: The farmland price index advanced to 66.9 from 61.9 in August. This is the 20th straight month the index has been above growth neutral and the third straight month that the gauge has risen. Consistent with the upturn in farmland price growth, the farm equipment sales index expanded to 65.4 from August’s 56.9. “Although both farming gauges are down from the beginning of the year, they are up significantly from September of last year reflecting very strong farm income growth,” said Goss, the Jack A. MacAllister Chair in Regional Economics at Creighton. This month bankers were asked several questions related to infrastructure spending. Almost one-third, or 32 percent, indicated that current infrastructure spending in their area had declined dramatically over the past three years. On the other hand, 63 percent indicated no cutback in infrastructure spending. In terms of support for President Obama’s infrastructure spending as a job growing initiative, 43 percent indicated they did not support the announced program while 32 percent said they did back the new initiative. The remaining 25 percent were unsure.

Kathy Thuman, president of Farmers State Bank in Maywood, Neb., said she sees “little long term job creation coming from the recently released jobs bill.” John Nelsen, president of First Tier Bank in Holdrege, Neb., echoed many bankers concerns saying that, “I do not support any new spending. As bankers, have we ever seen someone borrow their way out of debt?”

Regarding support for additional spending on specific items of infrastructure, 69 percent were supportive of more spending on highways, bridges and roads, 15 percent were supportive of added spending on school buildings and equipment and 10 percent were on record for supporting more spending on infrastructure to protect against flooding and other weather related factors. No other program gained more than single digit support. According to Bill Hess, president of Iowa Savings Bank in Carroll, Iowa, “Our problems today stem from a do-nothing Congress, and it will continue that way until we elect qualified people with business sense to set the nation on a proper course.”

Dale Bradley, CEO of the Citizens State Bank in Miltonvale, Kan., argued that spending more than the government is taking in “puts the economy on the wrong track.” While John Schmaderer, president of Tri-County Bank in Stuart, Neb., conceded that infrastructure spending is critical to rural development but, “Budget cutting and infrastructure development can be inconsistent.”

Banking: The loan volume index for September expanded to 62.5 from 62.1 in August. The checking deposit index increased to 60.3 from August’s 55.4 while the index for certificates of deposit and other savings instruments rose to a weak 41.2 from 40.2 last month.

Jobs: September’s job index climbed to 54.7 from 49.3 in August. “Job growth for Rural Mainstreet communities is between three and four times that of metropolitan areas of the region. Even with the recent strength, Rural Mainstreet communities have lost on average approximately 2.7 percent of their pre-recession levels of employment while urban areas of the region have lost almost 4.3 percent of their pre-recession level of jobs,” said Goss.

Confidence: The economic confidence index, which reflects expectations for the economy six months out, rose to 50.0 from August’s weak 44.0. “While the index was up for the month, bankers remain less than optimistic about future economic conditions, compared to last year at this time,” said Goss.

Home and retail sales: For a second straight month, the Rural Mainstreet home sales index moved below growth neutral to 48.5 from 49.3 in August. The retail sales index for September fell to 47.1 from 47.3 in August. “Much like their city counterparts, Rural Mainstreet’s retailers and real estate firms are experiencing weak economic conditions,” said Goss.

Each month, community bank presidents and CEOs in nonurban, agriculturally and energy-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

For the ninth straight month, Colorado’s Rural Mainstreet Index (RMI) remained above growth neutral. The index for September rose to 53.2 from 50.7 in August. The farmland and ranchland price index improved to 67.1 from 62.0 in August. Colorado’s farm equipment sales index for September was a strong 65.7. Net change in jobs for Rural Mainstreet Colorado since the recession, -4.0 percent.

ILLINOIS

The RMI for Illinois remained above growth neutral for the 17th straight month. The September index advanced to 53.1 from 51.9 in August. Farmland prices remained significantly above growth neutral with a reading of 67.4, up from August’s 62.2. The state’s new hiring index was 51.9, up from 50.6 in July. Net change in jobs for Rural Mainstreet Illinois since the recession, -3.4 percent.

IOWA

The RMI for Iowa rebounded to 53.9 from 50.8 in August. The farmland price index advanced to a strong 67.2 from 58.1 in August. Iowa’s new hiring index for September was a solid 55.8, and up from August’s 50.7. Net change in jobs for Rural Mainstreet Iowa since the recession, -4.3 percent.

KANSAS

After declining below growth neutral for August, the RMI for the state increased to 52.2 from August’s 48.8. The farmland price index expanded to 66.9 from 61.9 in August. The state’s new hiring index was a stronger 54.6 from 48.8 in August. Net change in jobs for Rural Mainstreet Kansas since the recession, -1.9 percent.

MINNESOTA

The September RMI for Minnesota expanded to 52.6 from 50.6 in August. Minnesota’s farmland price index climbed to 67.0 from 62.0 in August. The state’s new hiring index rose to 54.9 from 50.6 in August. Net change in jobs for Rural Mainstreet Minnesota since the recession, -2.2 percent.

MISSOURI

The RMI for Missouri grew to 52.0 from August’s 49.1. The farmland price index for Missouri dipped slightly to 61.0 from 61.8 in August. The state’s new hiring index advanced to 54.5 from August’s regional low 48.5. Net change in jobs for Rural Mainstreet Missouri since the recession, -8.2 percent.

NEBRASKA

The August RMI for Nebraska expanded to a regional high for September of 56.8 from 52.1 in August. The farmland price index expanded to 67.0 from 62.2 in August. The state’s new hiring index stood at 55.1, up from 52.0 in August. Net change in jobs for Rural Mainstreet Nebraska since the recession, -1.6 percent.

NORTH DAKOTA

The North Dakota RMI once again declined but to a solid 55.1 from August’s regional high of 58.1. The farmland price index increased to 67.4 from 62.8 in August. The state’s new hiring index was a solid 56.6 but down from August’s regional high of 58.1. Net change in jobs for Rural Mainstreet North Dakota since the recession, +22.5 percent.

SOUTH DAKOTA

After moving below growth neutral for August, South Dakota’s RMI once again moved into the growth range with a September reading of 52.4, up from 49.4 in August. The farmland price index dipped to 60.1 from 61.9 in August. South Dakota’s new hiring index for September was up significantly to 55.1 from August’s much weaker 49.4. Net change in jobs for Rural Mainstreet South Dakota since the recession, -0.8 percent.

WYOMING

The Wyoming RMI for September increased to 52.9 from 51.2 in August. The September farmland and ranchland price index improved to 67.0 from 62.1 in August. The state’s new hiring index expanded to 55.2 from August’s 51.2. Net change in jobs for Rural Mainstreet Wyoming since the recession, no change.

THE BULLISH NEWS

- Non-farm employment rose by 103,000 in September and the unemployment rate was unchanged at 9.1%.
- Rates on 30 year mortgages dipped below 4.0% to a record low 3.75% last week.
- The four-week average of first time claims for unemployment insurance decreased by 4,000 to 414,000 last week. Still too high but not recessionary.
- The Standard & Poor’s/Case-Shiller index of 20 American cities, a key measure, was up 0.9% for July compared to June, but down 4.1% from July 2010.

THE BEARISH NEWS

- The number of long-term unemployed (those with more than 27 weeks and over) was 6.2 million in September. They represent 44.6 percent of the unemployed.
- The Consumer Price Index (CPI) increased 0.4% in August. Over the last 12 months, the CPI increased 3.8%. Much too high for comfort.
- Retail sales for August were virtually unchanged from July reflecting a very pessimistic consumer.

WHAT TO WATCH

- **GDP:** On October 27, the Bureau of Economic Analysis will release its advance estimate for 3rd quarter GDP growth. Anything above 1.5% will be smiled upon by investors. I expect 1% - 1.5% growth. (www.bea.gov)
- **PMI:** The Mid-America PMI from Creighton and the National PMIs from the Institute for Supply Management will be released on Nov. 1 for October. Both indices have ticked upward. Increases for both will be very encouraging sign. (www.outlook-economic.com)
- **Jobs:** On Friday Nov. 4, the U.S. BLS releases its employment report for October. A gain of 100,000 – 150,000 will be met by a collective yawn by investors. Readings outside this range will be news worthy for investors and policymakers.
- **Retail Sales:** On Oct. 14 and Nov. 15, the U.S. Census Bureau will release estimated retail sales for September and October, respectively. No growth or a decline in month to month sales will be very negative for markets and a signal the holiday buying season will be dismal.

THE OUTLOOK

FROM GOSS:

- Despite recent good news from Europe, the International Monetary Fund and the European Central Bank are only delaying the inevitable default of Greece on its debt
- I expect the housing market to bottom for most areas of the nation by the end of 2011. This does not mean growth, but it does mean an end to the rapid declines in housing prices
- I expect to hear more and more complaints about rapid price increases for a lot of what American are buying. The Fed continues to have its foot on the accelerator with the result of excessive inflation

OTHER FORECASTS:

- **HConference Board:** Kathy Bostjancic, Director of Macroeconomic Analysis expects “Modest Job Growth Confirms Sluggish Economy, But We May Escape Recession.” After four straight months of very little job growth, conditions improved a little in September. While it may help us to just barely escape a recession call, the gain in jobs and incomes is likely too little to blunt consumer pessimism. The main problem is that demand is simply too weak to support more robust job growth (more than 125,000

jobs per month). Employers are not going to step up hiring unless demand picks up. But consumers are not going to spend more until employment strengthens. There is no help on the way from monetary or fiscal policy, at the federal, state, or local level. This all adds up to a labor market that will continue to struggle to deliver even modest gains this autumn or winter.

- The National Association for Business Economics Outlook panel revised its growth projections downward for both 2011 and 2012. Real gross domestic product (GDP) is expected to advance 1.7 percent in 2011 (year-over-year), down from the panel’s May prediction of 2.8 percent. The downward revision reflects weaker-than-expected growth in the second quarter, as well as a weaker projection for growth in the second half of 2011. The panel anticipates growth in 2012 to edge up to 2.3 percent (year-over-year), a growth rate slower than the May projection of 3.2 percent. Panelists view these forecasts to be highly uncertain, with 86 percent of forecasters seeing “much more” or “somewhat more” uncertainty than usual.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The Obama Administration, by proposing adding more layers to the tax code via the Buffett tax, will only make the tax code more complex with tax lawyers and accountants being the biggest beneficiaries. We need tax reform that eliminates loopholes and deductions, not adds to them

BANKER READING ROOM

“Dodd-Frank regulation had caused banks to lose revenue,” Bank of America’s announcement that it will begin charging a \$5 monthly fee on debit cards struck many as plain greed. It generated umpteen headlines and a flood of customer feedback that reportedly crashed the bank’s Web site. But the fee didn’t come from outer space. New regulations passed during the midst of the housing crisis and economic free fall offer a simple, if not necessarily satisfying, explanation. The first regulation, formally called the Dodd-Frank Wall Street Reform and Consumer Protection Act, included an amendment from U.S. Sen. Dick Durbin, D-Ill., that halved the fees banks can charge retailers each time a customer swipes a debit card. The regulation cut the fees from 48 cents for an average purchase of \$38 to 24 cents, costing banks \$8-\$10 billion a year. <http://www.nashuatelegraph.com/news/935415-196/dodd-frank-regulation-had-caused-banks-to-lose.html>

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