

FINANCIAL INSTITUTIONS CONFERENCE

MAY 20, 2025 | 8 AM - 4:25 PM | 8 HRS CPE | WEST DES MOINES MARRIOTT

FINANCIAL INSTITUTIONS CONFERENCE ISCPA IDWA SOCIETY OF CPA

8-8:10 a.m. | ISCPA update and welcome messages

Lindsey Haley | ISCPA Director of Membership and Business Development

Michael Holdren, CPA | Committee Chair Eide Bailly LLP

Concord AB | Channel 1

8:10-9:10 a.m. | Navigating the Future of Banking: Industry Leader Perspectives

James Livingston | Federal Home Loan Bank of Des Moines

Adam Snodgrass | Iowa State Savings Bank Heather Stumpf | GreenState Credit Union Mitch Van Kley | Iowa Bankers Insurance and Services (moderator)

Concord AB | Channel 1

9:10-9:20 a.m. | Break

9:20-10:20 a.m. | Managing Through a Fed Easing Rate Cycle: Strategies to Consider Now & Common Mistakes to Avoid

Frank Farone Darling Consulting Group

Concord AB | Channel 1

10:20-10:30 a.m. | Break

10:30-11:25 a.m. | 2025 Tax Update for Financial Institutions

Rachel Scheve, CPA and Kimberly Wernimont, CPA RSM US LLP

Concord AB | Channel 1

11:25 a.m.-12:10 p.m. | Lunch

Concord C

12:10-1:05 p.m. | Breakout sessions

Ethical Considerations for Generative AI in the Workplace

Michael Bootsma, CPA, J.D., LLM, CMA lowa State University

Concord AB | Channel 1

Optimizing Core Processing for Cost Savings

Doug Latare
ICI Consulting

Salon A | Channel 2

1:05-1:15 p.m. | Break

1:15-2:10 p.m. | The Regulatory Landscape: Insights from Experts

Greg Goff | FDIC Michael Holdren | Eide Bailly LLP (moderator) Chris Kumpf | State of Iowa Scott Saunders | Iowa Division of Banking

Concord AB | Channel 1

2:10-2:20 p.m. | Break

2:20-3:15 p.m. | Financial Institution Mergers and Acquisition Update

Blake Crow, CPA, MBT Eide Bailly LLP

Concord AB | Channel 1

3:15-3:25 p.m. | Break

Reminder for in-person attendees: Sign the afternoon set of attendance sheets.

3:25-4:25 p.m. | Reacquiring Balance Sheets in a Post Pandemic Environment

Ryan Smith Piper Sandler

Concord AB | Channel 1

Special thanks...

to the 2024-2025 ISCPA Financial Institutions Committee for their help planning this year's conference!

Tanner Augustine | KPMG LLP, Des Moines

Afley Barnabas | KPMG LLP, Des Moines

Stephanie Brady | RSM US LLP, Des Moines

Ben Currie | TruBank, Indianola

Michael Holdren | Eide Bailly LLP, Des Moines | Committee Chair

Laura Meier | Federal Home Loan Bank of Des Moines, Des Moines | ISCPA Board of Directors

liaison

Grant Rolfes | CliftonLarsonAllen LLP, Des Moines

Jean Scherr | West Bank, West Des Moines

Heather Stumpf | GreenState Credit Union, North Liberty

Mitch Van Kley | Iowa Bankers Insurance and Services, Johnston

Michael Yung | West Bank, West Des Moines

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Michael Bootsma is a licensed attorney, CMA, and a CPA. He has held various positions in the area of accounting and law over the years. He currently teaches law, cost accounting, and taxation classes for lowa State University as a Dean's Teaching Fellow in Accounting. Michael graduated from lowa State University with a Bachelor's degree in Accounting and Finance. He graduated with a Juris Doctorate and Masters of Accounting from the University of Iowa. He later earned a Masters of Taxation and LL.M. from Golden Gate University. He held various positions in law and accounting before coming to Iowa State University. He has published peer reviewed research in the area of accounting and is the primary author and editor of the textbook Comprehensive Business Law. Michael and his family live by the Saylorville Lake where they enjoy many outdoor activities.

Blake Crow is a Partner in the Des Moines office of Eide Bailly. He has been with the firm since 2008 and specializes in providing tax planning and tax compliance services to financial institutions. Blake serves on the firm's Financial Institution Services Group Tax Committee and Research and Technical Subcommittee, where he stays current on the latest regulatory changes and industry trends. His responsibilities include preparing regulatory applications and accompanying forecasted financial statements for financial institutions and bank holding companies. Some of his client work includes: Consulted with financial institutions and their shareholders on S corporation conversions and S corporation planning issues, assisted bank holding companies and financial institutions with regulatory filings, including FR Y-9C, FR Y-9LP and FR Y-9SP reports, performed loan file inspection engagements and agreed-upon procedures engagements. Blake is a member of the lowa Society of CPAs, the South Dakota Society of CPAs and the American Institute of CPAs. He has a Bachelor of Science in Accounting from Minnesota State University, a Masters of Business Taxation from the University of Southern California, and he attended the Dakota School of Banking and the Graduate of School of Banking in Colorado.

Frank Farone consults nationwide with CEOs and CFOs of financial institutions to increase earnings through the proactive management of capital, liquidity/funding risk, and interest rate risk. He is a frequent speaker and author on topics such as industry issues and trends, funding solutions, regulatory issues, interest rate risk management, capital management, and derivatives hedging techniques. Frank was designated a top-rated speaker by FMS and is well known for his popular seminar "Turbo Charging Your ALCO Process" having helped thousands of bankers across the country Frank is a graduate of Siena College. He lives in Winchester, Massachusetts and is an avid golfer and runner, having completed numerous marathons including several Boston Marathons over the past 25 years.

Greg Goff's FDIC career spans 23 years in risk management and consumer protection. He currently serves as a Supervisory Examiner in the Des Moines field office. Greg holds a Certified Fiduciary and Investment Risk Specialist designation from Cannon Financial Institute and has completed the Executive Leadership Program through the Graduate School USA.



Michael Holdren is a Partner with Eide Bailly LLP providing assurance and consulting servic-es to financial institution clients to meet their growing list of needs. Using his experience as a CFO in the industry, Michael understands the challenges facing financial institutions and uses his experience to develop institution-specific solutions and recommendations.

Chris Kumpf is a Senior Examiner with the Iowa Division of Credit Unions (Division). With his experience and expertise, Chris leads examinations for the state's largest and most complex credit unions. When not operating as the lead examiner, he completes in-depth reviews of asset/liability management (ALM) programs. Chris uses his experience and expertise to provide internal training within the Division. Chris joined the Division in May of 1999, shortly after graduating from the University of Northern Iowa with a Bachelor's Degree in accounting. He recently celebrated 25 years with the Division. In his tenure, Chris has advanced from Field Examiner, to Problem Case Officer, to Senior Examiner and Capital Markets Specialist. He utilizes his experience on a number of internal and external committees to improve the function of the Division as a whole (NASCUS Accreditation Review, Business Continuity and Improvements, MERIT Examination, etc.). Chris lives with his wife, Nicole, and son Donovan, near Dike, Iowa. Chris enjoys coaching volleyball, golfing with Donovan, and traveling with his family.

Doug Latare is CEO of ICI Consulting and has over 30 years of experience in FinTech. He is uniquely positioned to understand what a FI wants from their technology vendors. He has led various sales efforts at core vendors including: Finastra, Kirchman, Newtrend and Phoenix International. In those roles, he worked with hundreds of banks and credit unions partnering to create winning relationships with their core provider. Doug has earned a reputation of honesty and integrity by not over promising and always focusing on delivering a superior client experience. Doug is a graduate of the University of Missouri with a BS in Marketing and dual minors in both Accounting and Economics. He currently resides in Orlando, Florida enjoying an active outdoor Florida lifestyle including motorcycling, boating and the beach.

James Livingston joined FHLB Des Moines in 2023 and is the Bank's CFO. James oversees the accounting, financial reporting, strategic planning, SOX and capital markets teams (including investing, funding, hedging and pricing). Prior to the FHLB Des Moines, James held several leadership roles at Zions Bancorporation, National Association ("Zions"), most recently as Executive Vice President, Director of Municipal & Institutional Services. James has leadership experience in several related areas, including investments, public finance, capital markets and financial research. Prior to joining Zions, he was the Director of Financial Research and Quantitative Strategy for Ziff Brothers Investments. He was also an Assistant Professor of Accounting at Southern Methodist University. James served on the Board of Directors of the Federal Home Loan Bank of Seattle and continued on the Board of Directors for FHLB Des Moines following the merger in 2015. He was Board Chair from 2020 to 2021.



Rachel Scheve is a Partner, Tax Services, for RSM US LLP in Des Moines. She has over 19 years of public accounting experience and provides tax services to middle market clients, including federal and state tax compliance, tax planning and research, FASB Accounting Standards Codifica-tion Topic 740 analysis, tax accounting method changes, tax reform implementation and other tax reporting. She works with clients primarily in the financial services industry, as well as with high-net-worth individuals.

Ryan Smith is a Managing Director at Piper Sandler in the financial services group. In this role, he advises financial institutions on capital management, budgeting, fixed income and investments, debt capital markets, regulation and accounting, derivatives and asset/liability management. Smith also works closely with the firm's investment banking group to identify and develop strategic opportunities related to mergers and acquisitions, capital issuance or other transactions. Prior to joining Piper Sandler in 2019, he was the head of financial institution analytics, and formerly head of bank strategies at Stifel Financial, where he worked in a similar capacity and advised financial institutions across the country. Smith started his career at Keefe, Bruyette, and Woods (a full service investment bank that was acquired by Stifel), where he worked on a team that advised on dozens of completed M&A deals, IPOs, equity offerings and other transactions. Smith holds a bachelor's degree in political science from Amherst College. He serves as a board member for the non-profit Rooftop Films, Inc. and is the investment advisor for the non-profit, Educate!

Adam Snodgrass is President and CEO of Iowa State Savings Bank, a \$275 Million community bank with two offices in Creston, Iowa and one office in Lenox, Iowa. Adam obtained his Finance degree from the University of Northern Iowa in 2002 and received his diploma from the Graduate School of Banking in Madison, Wisconsin in 2008. Adam's career with Iowa State Savings Bank began in 2001 as a seasonal employee while attending college, and he joined the bank full time in 2002. After starting with the bank as an officer trainee, he held the positions of Loan Officer, Trust Officer, and CFO prior to being appointed as President and CEO. Throughout his career, he helped the bank expand its footprint from two locations to six, directed the subsequent closure of three of those locations, and oversaw the bank's acquisition by Ames National Corporation, a publicly traded multi-bank holding company, in 2019.

Heather Stumpf is the CFO of GreenState Credit Union committed to excellence and con-tinuous learning. With a passion for helping others succeed, she leverages her expertise to provide valuable financial insights that empower businesses to grow and achieve their goals. As a CPA, Heather specializes in guiding clients to a deeper understanding of their financial landscape, enabling them to make informed decisions and turn their business aspirations into reality.



Mitch Van Kley is the Controller for Iowa Bankers Association in Johnston and an active member with the Iowa Society of CPAs. Previously, he was an Audit Senior Manager with Deloitte in Des Moines for 11 years. He attended Iowa State University, earning bachelors' degrees in Accounting and Management Information Systems.

Kimberly Wernimont is a Senior Director, Tax Services, for RSM US LLP in Des Moines. She pro-vides tax and accounting services to financial institution clients, primarily in retail and commercial bank-ing. Her experience includes both C and S corporation financial institutions. She is responsible for pro-viding a variety of tax compliance, tax planning, and related services, including ASC 740 tax provisions. Kimberly also provides tax compliance and planning services for trusts and high-networth individuals. Kimberly has over fourteen years of experience in public accounting working on financial institutions, including both public and private companies.



Navigating the Future of Banking: Industry Leader Perspectives

James Livingston | CFO, Federal Home Loan Bank Adam Snodgrass | CEO, Iowa State Savings Bank Heather Stumpf | CFO, GreenState Credit Union Mitch Van Kley | Controller, Iowa Bankers Insurance and Services (moderator)



2025 Financial Institutions Conference

Navigating the Future of Banking: Industry Leader Perspectives

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NOTES



Managing Through a Fed Easing Rate Cycle: Strategies to Consider Now & Common Mistakes to Avoid

Frank Farone | Darling Consulting Group



Managing Through a Fed Easing Rate Cycle: Strategies to Consider Now & Common Mistakes to Avoid

May 20, 2025

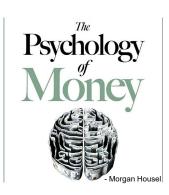
Frank L. Farone | Managing Director | ffarone@darlingconsulting.com



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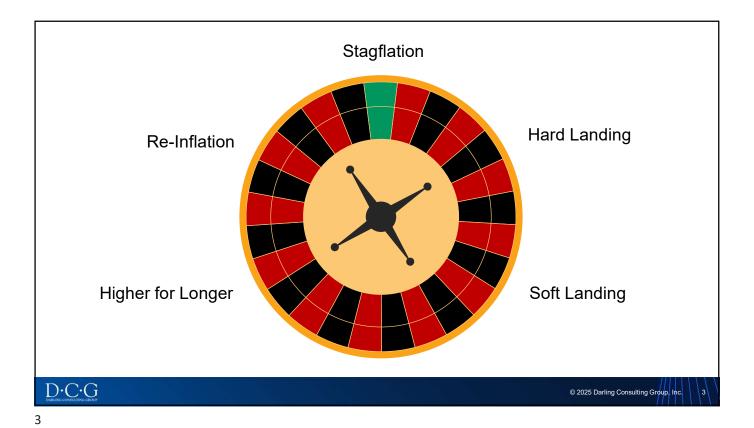
"Things that never happened before happen all the time."

...Don't Assume Away the Unexpected



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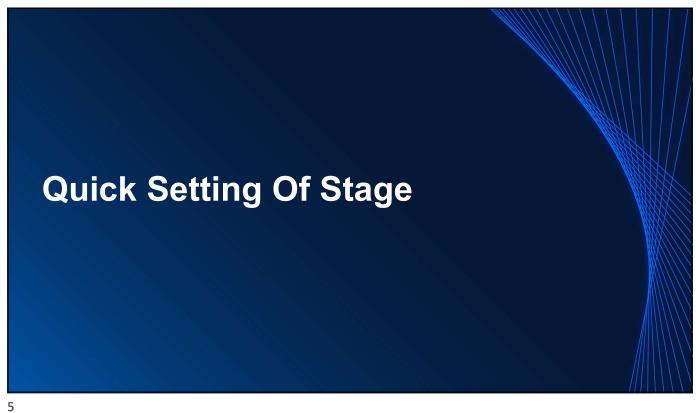


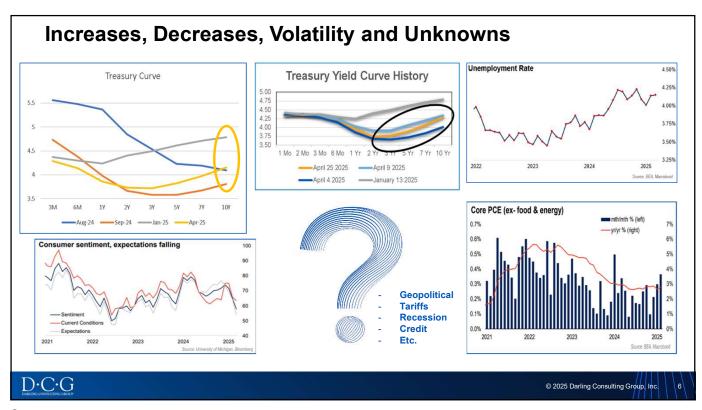
Agenda

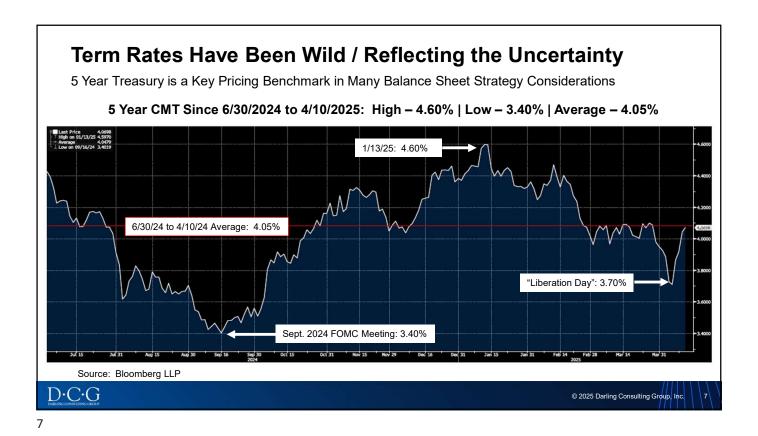
- Quick Setting of Stage
 - ► Current Rate Environment & Implications for ALCO
 - ► A Few Trends & General Observations
- Balance Sheet Management Strategy & Governance In Perspective
- Thoughts On Balance Sheet Strategy
 - ► Spotlight On Liquidity Management
 - Deposits
 - Lending
 - ► Investments (& Derivatives)
- "The ALCO Meeting"
- Anything Else On Mind?

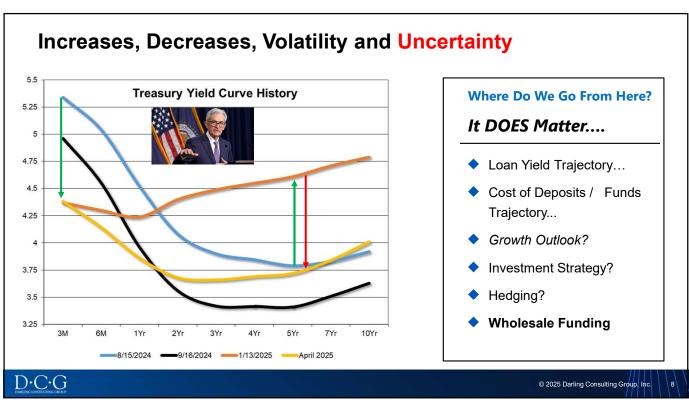
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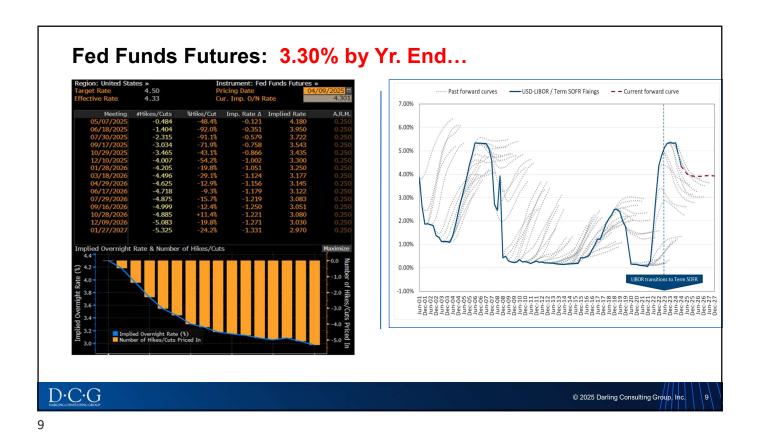
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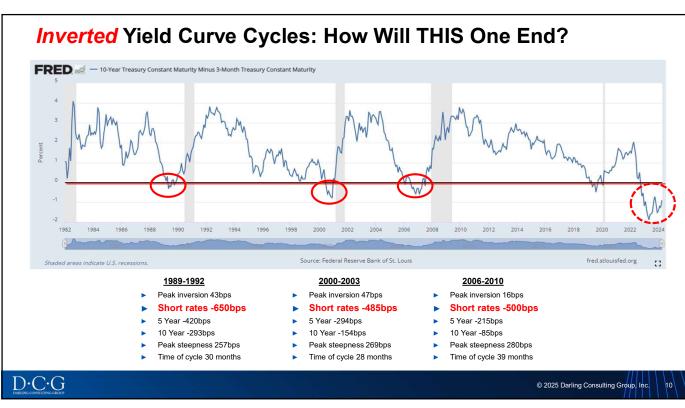












Long Term Rates ALWAYS Fell After Initial Fed Rate Cut

	10yr Treasury Yield Declines (As % of Peak Rate)										
Easing Cycle	Peak Rate (%)	Rate at First Cut	Rate at Bottom	From Peak to First Cut	From First Cut to Bottom						
1984 (SL)	13.99	12.54	6.95	-10.36%	-39.96%						
1989 (R)	9.53	8.36	5.19	-12.28%	-33.26%						
1995 (SL)	8.05	6.05	4.16	-24.84%	-23.48%						
2001 (R)	6.79	5.14	3.13	-24.30%	-29.60%						
2007 (R)	5.26	4.5	2.11	-14.45%	-45.44%						
2019 (R)	3.24	2.02	0.52	-37.65%	-46.30%						
2024 (?)	4.98	3.7	?	-25.70%	2						
	_		Average	-21.37%	-36.34%						

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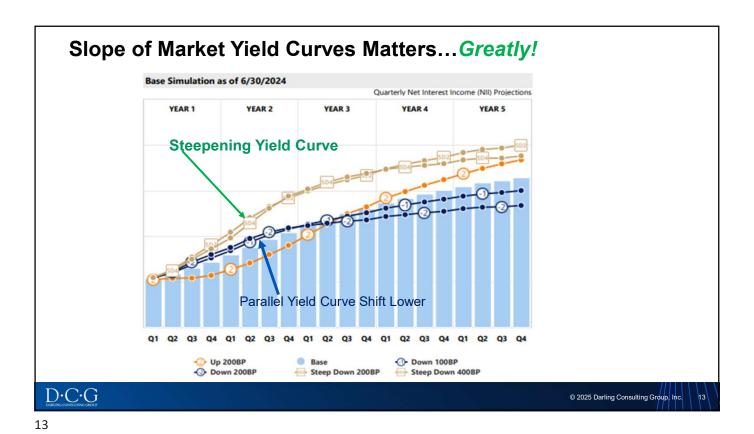
Lessons Learned from Previous Rate Cycles

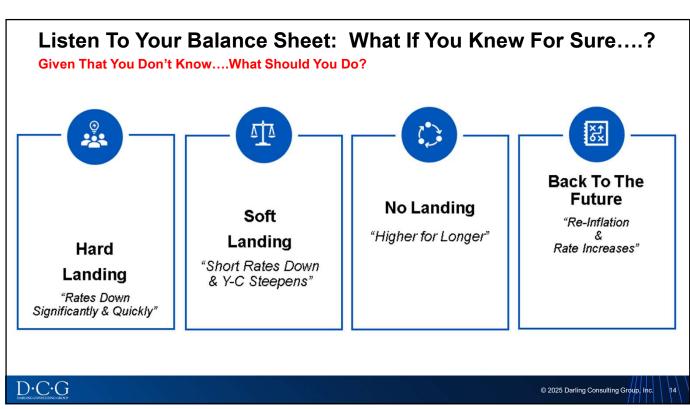
- ◆ Long Rates Move "Ahead" of Short Rates on Way Up and Way Down
- ◆ AVOID Extending **Funding** Out too Long When the Curve is Flat or Inverted (use caps)
- ADD Asset Duration and Yield When curve Flat after Fed tightening (despite initial narrow spread)
- ◆ Call Protection Value: Buy Before the Curve Flattens / Inverts (Hedge Falling Rates Ahead)
- ◆ NEVER Buy Callable Agency Bonds, EVER!
- Credit Cycles Repeat, Just Never Know "When" or "Magnitude"
- Opportunity for "Gains" as rates fall require asset duration at higher rate levels...most miss!
- There's NO such thing as a Free Lunch! (except BTFP!)

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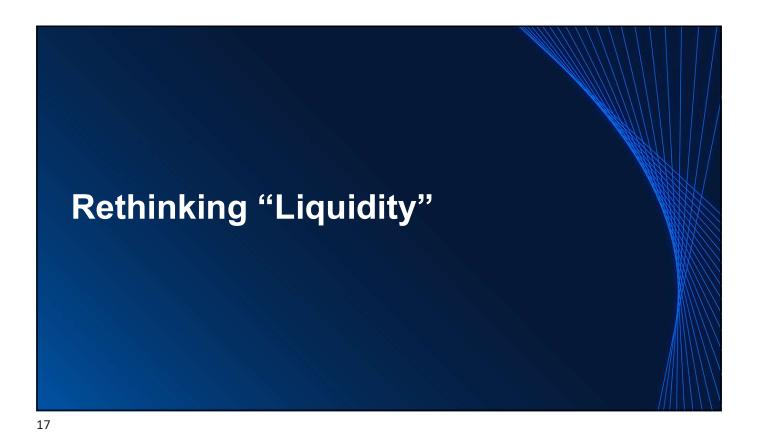
The Most Important Advice We Can Provide...



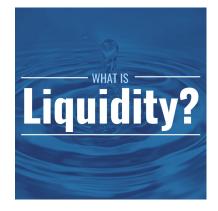
...AND an INTERESTING "Tidbit" from a lunch with banking industry regulators

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Liquidity Definition Validated By "March Madness"



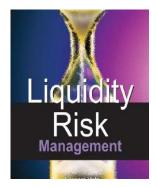


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Liquidity Management: A New World Order





Revisit Liquidity Management

- ► Appetite for wholesale funding
- Inventory of liquidity sources
- Concentration risks
- Elevated role of FRB necessitated
- Are your policies sufficiently diverse & flexible?
- ➤ Documentation: sources, availability/limits, settlement times, constraints/curtailments...
- ► Contingency Liquidity Plan…A Meaningful One!

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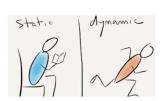
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Risk Measurement & Management

Some Things to Ponder...



- Key Assumptions & Sensitivities
- Value of Data/Analytics
- No More "Set It & Forget It" Assumptions
- What Could Go Wrong; How Monitor & Respond...
- Stress Testing Not For "Bad Times"
- Environment Of "Effective Challenge"





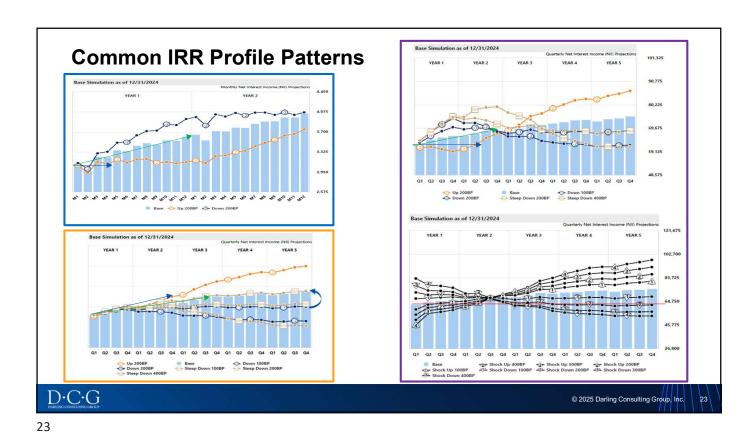
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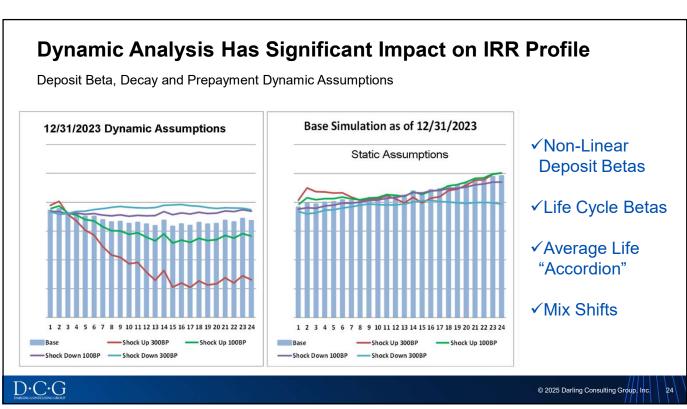
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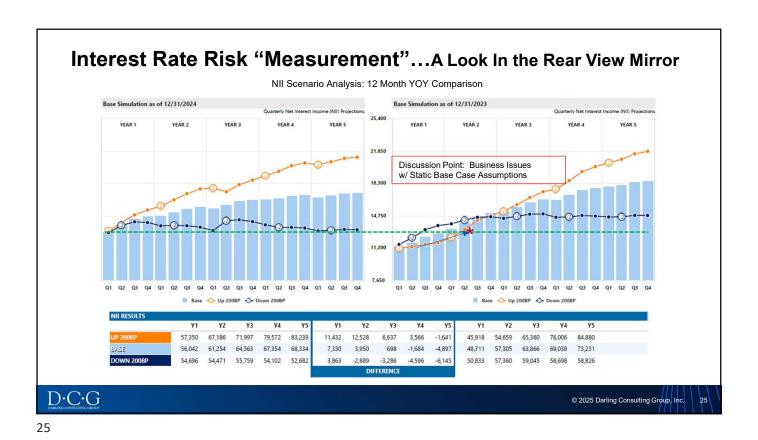
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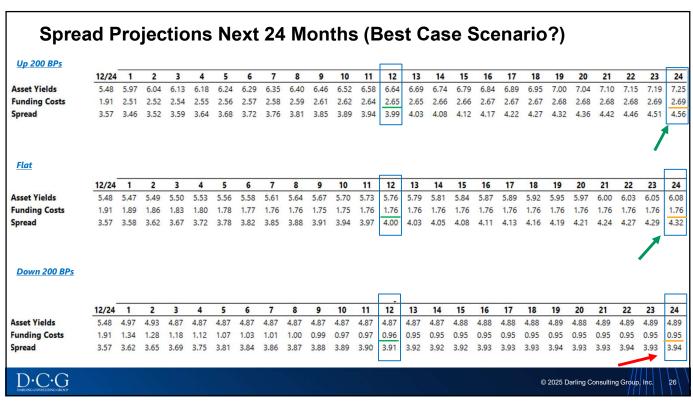


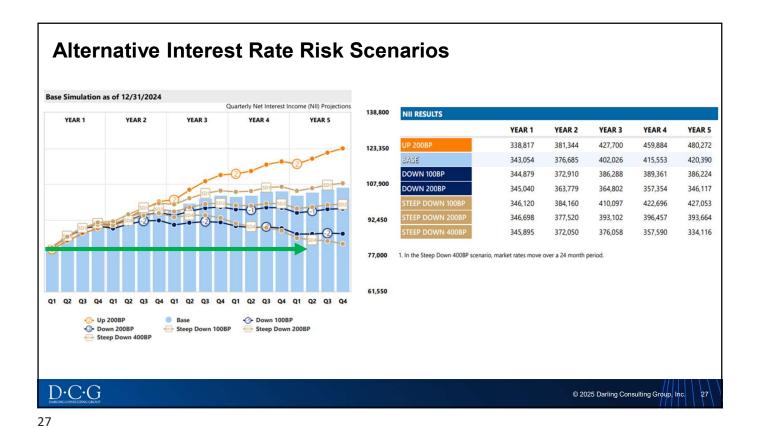
A New ALCO Era: Trusting Your Risk Models GETTING RISK O The Deposit Assumption Conundrum Non-Linear Deposit Betas Life Cycle Betas Average Life "Accordion" Mix Shifts Loan Assumptions Too

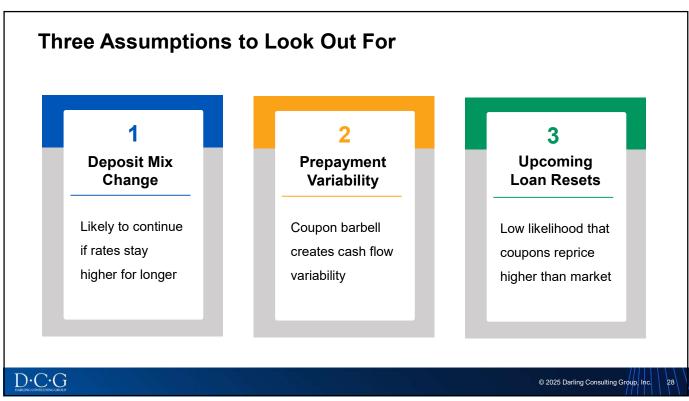


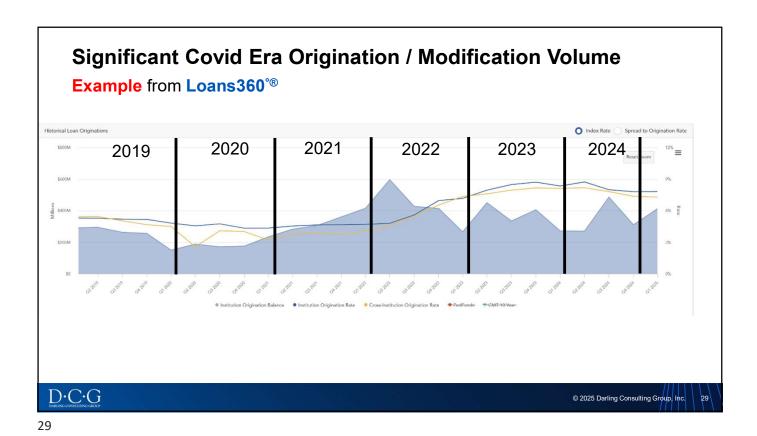












Two Differing Coupon Pools

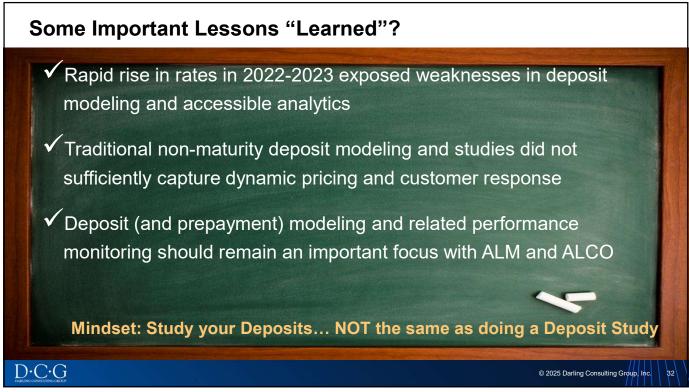
		Commer		
Coupon Band	<u>Count</u>	<u>Balance</u>	<u>Rate</u>	% of Total
<4.50%	616	511,043	3.66	34%
4.50-5.00%	139	58,555	4.73	4%
5.00-5.50%	154	60,087	5.25	4%
5.50-6.00%	328	125,317	5.72	8%
6.00-6.50%	343	133,245	6.21	9%
6.50-7.00%	275	131,571	6.71	9%
7.00-7.50%	321	158,631	7.23	11%
> 7.50 %	1,196	317,307	7.96	21%
Total	3,372	1,495,757	5.73	

Source: Darling Consulting Group

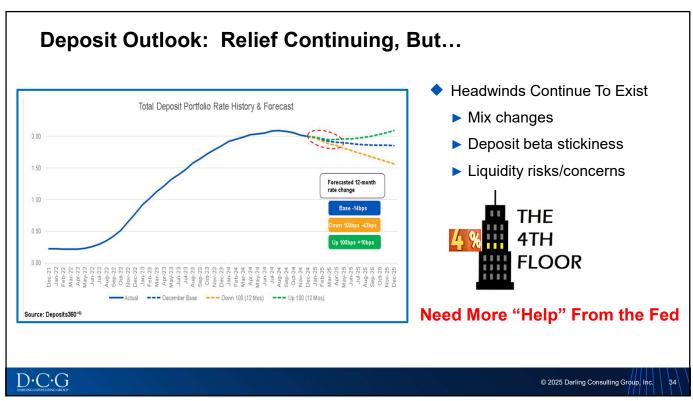
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< 5.7	5%		27	7		96,6	25		4.50			16%		<	4.50%		3	13		374	227		3.98			30%	ó
5.75-6	6.25%		10	1		24,7	85		5.97			4%		4.50	0-5.00%		2	43		199	,904		4.65			16%	ó
6.25-6	6.75%		12	0		91,7	48		6.48			15%		5.0	0-5.50%		8	37		110	,239		5.19			9%	,
6.75-7	.25%		18	0		82,2	20		6.94			13%		5.50	0-6.00%			74		97,	563		5.71			8%	į
7.25-7	7.75%		23	7		159,0)53		7.44			26%		6.0	0-6.50%		į	54		70,	584		6.16			6%	į
7.75-8	3.25%		12	6		82,0	75		7.96			13%		6.5	0-7.00%		1	10		148	187		6.68			12%	6
8.25-8	3.75%		14	6		45,8	97		8.45			8%		7.0	0-7.50%		1	18		156	526		7.19			12%	6
>8.7	5%		10	4		28,1	54		9.44			5%		>	7.50%		1	06		107	846		7.81			9%	,
Tot	tal		1,2	91		610,5	558		6.94				-		Total		1,	105		1,265	5,077		5.49				
							C	&I													Comm	ercial RE					
							Original	tion Year														ion Year					
100	1 1011		2020		2020		2021		2022		2023		2024				2020		2020		2021		2022		2023		2024
	% of Total	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Coupon Band	% of Total 30%	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	Balance	Count	_
5.75% 5-6.25%	16% 4%	39	22,606 10,321	42	17,597	110 16	21,449 1,719	83 27	22,860 7.695	2 50	12,069 4,559	1	45 491	<4.50% 4.50-5.00%	16%	150 133	177,453 101,535	59 44	70,608 26,698	77 38	68,490 24,276	27 28	57,676 47,395	0	n	0	
5-6.75%	15%	10	4,703	1	357	8	141	30	12.005	61	60.251	10	14,290	5.00-5.50%	9%	48	69,987	8	5,459	5	1.815	26	32,979	0	0	0	
5-7.25%	13%	7	6,148	3	3,293	3	15,973	25	10.806	66	18,118	76	27,882	5.50-6.00%	8%	36	19,455	4	6,081	2	4,975	27	52,980	4	12,116	1	
5-7.75%	26%	32	24,100	8	4,353	13	13,116	23	17,269	51	48,312	110	51,903	6.00-6.50%	6%	16	4,927	0	0	3	3,068	17	35,211	17	21,378	1	
5-8.25%	13%	31	27,715	3	2,057	8	7,650	20	16,091	39	19,142	25	9,420	6.50-7.00%	12%	43	40,044	0	0	3	6,076	18	36,332	35	36,196	11	
-8.75%	8%	40	17,984	5	583	7	4,382	21	4,201	27	5,540	46	13,206	7.00-7.50%	12%	58	52,514	3	3,453	3	15,838	4	12,334	21	19,367	29	
3.75%	5%	35	5,864	4	2,014	6	3,016	3	578	15	6,340	41	10,342	>7.50%	9%	50	28,185	2	898	10	10,679	3	7,276	21	34,849	20	
Total		201	119,440	66	30,256	171	67,447	232	91,505	311	174,331	310	127,579	Total		534	494,099	120	113,197	141	135,217	150	282,183	98	123,906	62	1





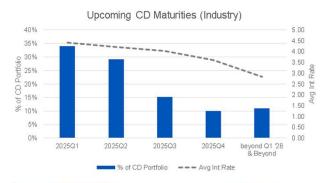


Deposit Takeaways



CD Strategy

- Navigating the "CD Wave"
- Understand Your Rollover Story: The More Rolls, The More Stable
- CD Special Strategy (terms & curve)
- · When/How Widen Maturity Ladder?
- · CD Only Depositors
- 4% Magic Handle...Next Target: 3.75%?





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FHLB Advances European Structur

European Structures: 1X Call (or bullet to maturity)

Convertib	es - Berm	udan	Convertibles - European						
Final Maturity	1st Call	Rate	Final Maturity	1st Call	Rate				
2v	7 2	3.31	2yr	3mo	3.37				
		3.44	2уг	6mo	3.47				
		3.04	Зуг	3mo	3.21				
3yr	.10	3.10	Зуг	6mo	3.22				
5yr	70	2.69	5уг	3mo	3.09				
F		2.78	5yr	6mo	3.07				
		2.90	5уг	1yr	3.07				
10,		2.37	10yr	3mo	3.12				
10yr	6mo	2.46	10yr	6mo	3.10				
10уг	1yr	2.57	10уг	1yr	2.99				

Market Levels	Rate
2-year	3.57
3-year	3.43
5-year	3.43
10-year	3.65
30-year	3.98

- Fixed rate, reduces rate by selling options; Act/360; Quarterly interest payments
- Quarterly callable by FHLBank (Bermudan); 1-time callable by FHLBank (European)

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Strategic Considerations for a *Changed & Changing* Lending Landscape

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Lending & Pricing Strategy Considerations

- Cost of Capital, Liquidity Costs, Credit/Economic Uncertainty
- Lenders or Relationship Managers?
- Value of Deposits (Other Services)
- Value / Cost of Options

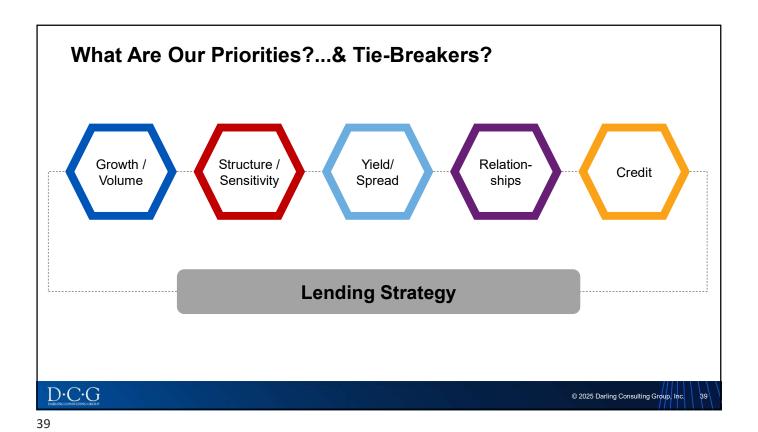


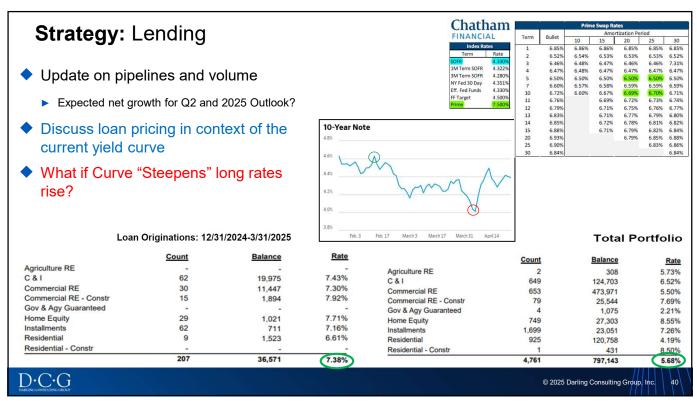
- Lender Roundtable
 - ▶ Loan growth & pricing strategy CLARITY
 - ► Modification requests
 - ▶ Prepayment penalties & enforcement "ground-rules"
 - (Q: loan doc language?)

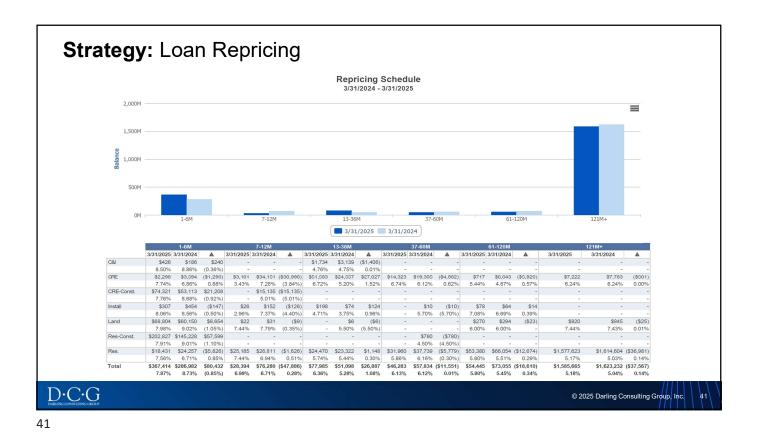
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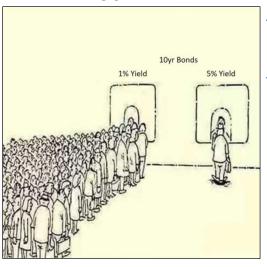
Strategy: Loan Coupon/Vintage Analysis Source: Loans360°® Commercial RE Coupon Band Count Balance Rate % of Total Balance Coupon Band Count % of Total <5.75% 277 96,625 4.50 16% <4.50% 313 374,227 5.75-6.25% 24,785 101 5.97 4% 4.50-5.00% 243 199,904 4.65 16% 6.25-6.75% 120 91.748 6.48 15% 5.00-5.50% 87 110.239 5.19 9% 6.75-7.25% 180 82,220 6.94 13% 5.50-6.00% 74 97,563 5.71 8% 7.25-7.75% 237 159,053 7.44 26% 6.00-6.50% 70,584 6% 6.16 7.75-8.25% 126 82,075 7.96 13% 6.50-7.00% 110 148,187 6.68 12% 146 8.45 8.25-8.75% 45,897 8% 118 156,526 7.19 12% 7.00-7.50% >8.75% 104 28,154 >7.50% 106 107,846 7.81 C&I Origination Year Origination Year <2020 2020 2021 2022 2023 2024 <2020 2020 2021 2022 2023 2024 Coupon Band % of Total Bala Balanc Coupon Band % of Total Raland Balanc Ralan <4.50% 177,453 70,608 <5.75% 17,597 12,069 22,606 21,449 22,860 4.50-5.00% 133 101,535 26,698 24,276 47,395 27 16% 5.75-6.25% 4% 10.321 1.719 7.695 4,559 491 1.815 32,979 6.25-6.75% 15% 4,703 357 141 12,005 60,251 14,290 5.00-5.50% 9% 69,987 5,459 5.50-6.00% 52,980 1,956 6.75-7.25% 6.148 3,293 15,973 10,806 18,118 27,882 8% 36 19,455 6.081 4,975 12.116 7.25-7.75% 26% 32 24,100 4,353 13,116 23 17,269 51 48,312 110 51,903 6.00-6.50% 6% 16 4 927 3.068 35.211 21.378 6,000 6.50-7.00% 40,044 29,539 7.75-8.25% 27,715 2,057 7,650 16,091 19,142 9,420 7.00-7.50% 58 52,514 3,453 15,838 12,334 19,367 53,019 583 4,382 4,201 5,540 46 8.25-8.75% 17,984 13,206 30,256 67,447 127,579 $D \cdot C \cdot G$ © 2025 Darling Consulting Group, Inc.



Strategic Considerations for a *Changed & Changing* Investing Landscape

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"Do the Opposite" Often Best Strategy!



- Bankers buy bonds when liquidity High, rates Low and reaching for earnings in "recessionary times"
- THEN...
 - ...Rates reverse,
 - ...Unrealized losses appear,
 - ... Along with Monday Morning Quarterbacks,
 - ...FUD materializes leading to inaction (or loss sales)
 - ...And when HIGH yield investment opportunities are once again available (with a flat/inverted curve)
 - ... "Fear, Uncertainty, Doubt" drives everyone "short"

...And "The Beat Goes On"...wash, rinse and repeat

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Investment "Strategy": What Makes Sense For YOUR Balance Sheet?



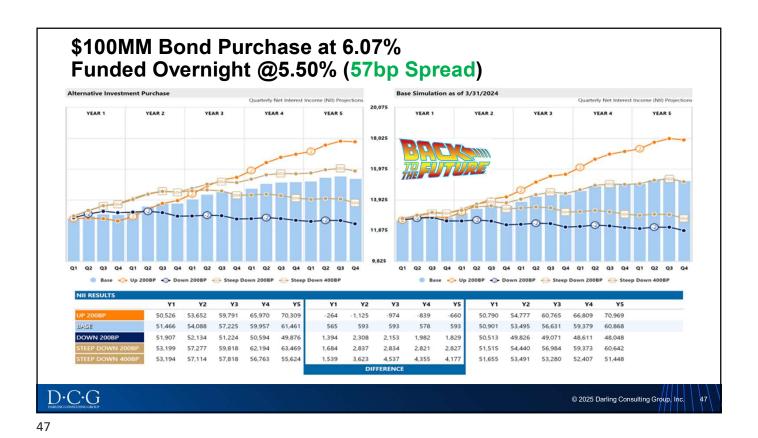
- Investment & Loan Cashflow Coming Off Historic Low Yields...
 Capture Higher Yields Now!
- Pre-investment: Hedge Slowing Loan Activity, Falling Rates
- ◆ IF Rates Fall, Economy Deteriorates, Margins Contract & Credit Costs Escalate?
 - ...Buy Call-Protected Duration Now!
- What Buying At Top Of Rate CYCLE...Spread?...Or Yield & Protection?... Avoid Herd Mentality & Do The Opposite!
- ◆ Loss Sales...No Free Lunch

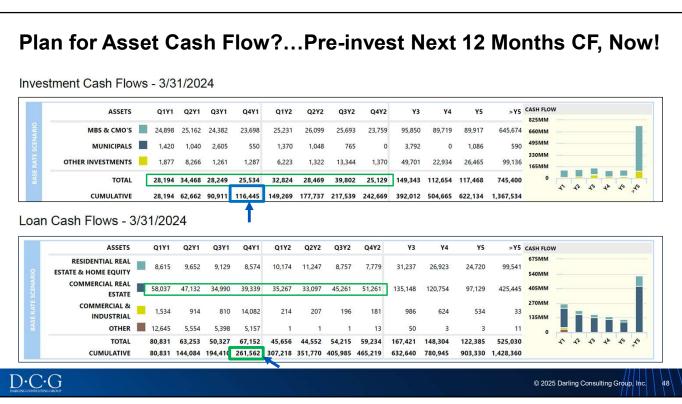
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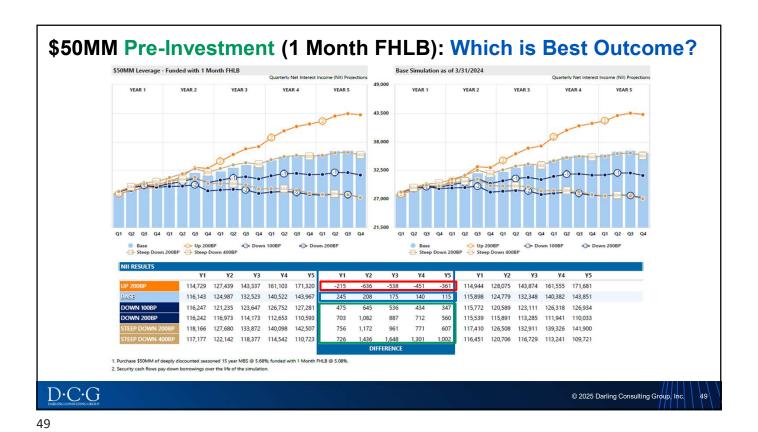
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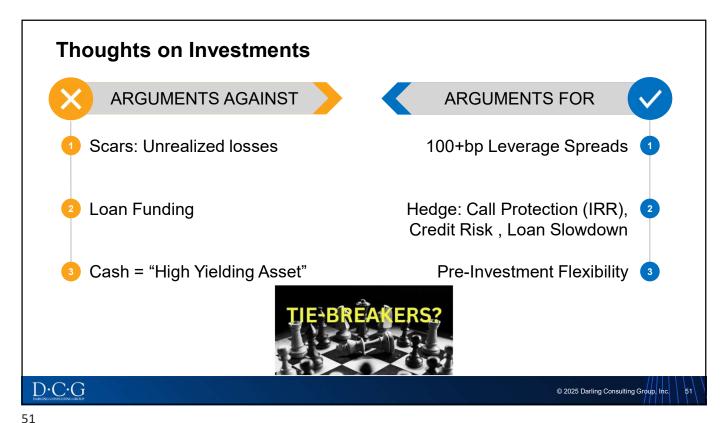
6% Yields at "Discounts"...the Risk to Rising Rates Low (or Behind Us)! 100% FNJMCK 5.5 N 6.110(352)8 **CUSIP 31418EZE3** 0.0C 0.0B 0P **Traits** CK, 30/360 Coupon 5.5% Maturity 10/01/53 83/83 Accrual 0 0.0 0.0 11/01/2023 2,439,560 LTV/HLTV 06/01-06/30 890,000 Next Pay 05/25/2024 2,424,937 07/25/24 0 0.0 0.0 818,308 0.99400587 Factor Life 0 0.0 0.0 # Loans 3 1) Price-to-Yield 9.0 CPR 10.4 CPR 12.7 CPR 29.2 CPR 43.3 CPR 51.4 CPR Settle 17.0 CPR **Indices** 100% BAM Vary Price 5.8740 5.8994 5.9381 6.0121 6.2757 6.7066 7.0213 Avg Life 8.65 7.79 6.69 5.15 2.93 1.81 1.43 D·C·G © 2025 Darling Consulting Group, Inc.





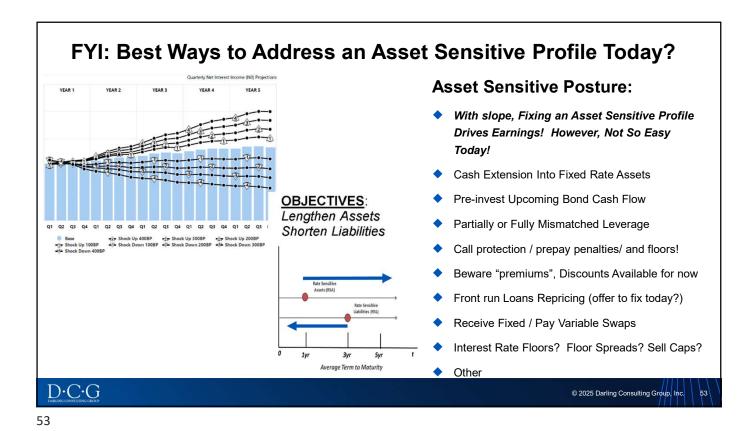


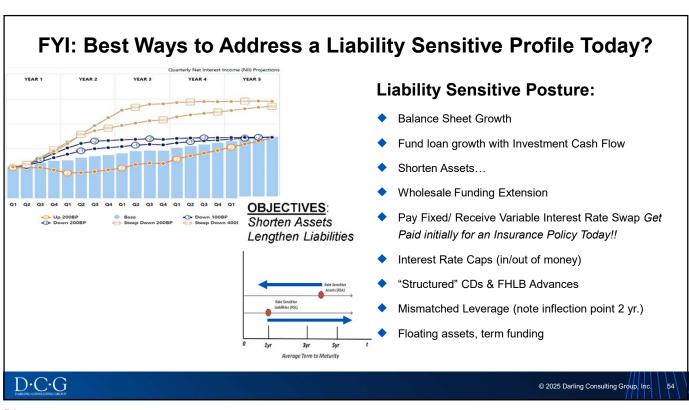
5.70% Bond at "Discount" Price \$99 6.562(359)1 100% FRJM3P 5.5 N **CUSIP 3133JMD61** As of 11 3P, 30/360 Coupon 5.50% Maturity 11/01/54 CA 65% 2024 11/24 -- P 100% **Traits** ЗМо 11/01/2024 12,247,001 LTV/HLTV 77/77 Accrual 11/01-11/30 TN 7% 1,150,000 Next Pay 7% 6Mo 11/25/2024 12,247,001 MAXLS 12/25/24 WA 1.0 WAOLS Factor 958,397 NJ 7% 13 Life --# Loans 1) Price-to-Yield Settle 11/14/24 +300 MED +200 MED +100 MED 0 MED -100 MED -200 MED -300 MED 109 PSA 144 PSA 751 PSA 86 PSA 261 PSA 1038 PSA 1472 PSA Vary 5.6446 5.6513 5.6615 5.8229 5.8861 5.9726 Avg Life 12.25 11.01 9.48 6.36 2.18 **Mod Duration** 4.81 7.23 6.48 2.45 1.97 1.55 D·C·G © 2025 Darling Consulting Group, Inc.



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DON'T "Just Say No"... The Important Role of Derivatives

Can Create Competitive Advantage

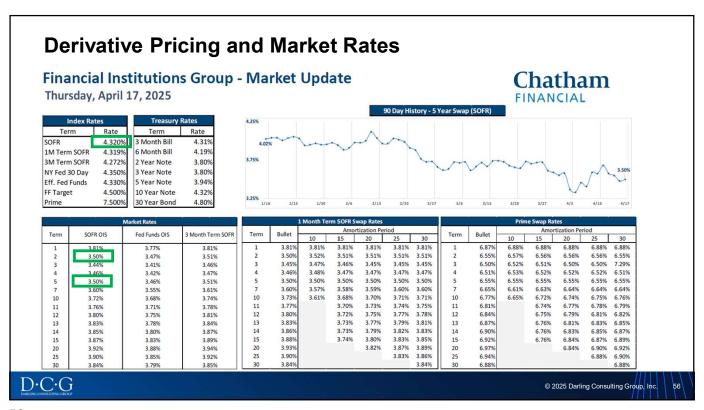


& Provide Important Flexibility

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Market Indications - Caps & Floors

- 2yr, 4.75% Cap (1 Fed Hike)
- 23 bps (11.5 bps per year)
- Equates to 11.5k per \$10MM annually

	SOFR Cap Pricing (% of Notional)						
Strike	2Y	3Y	4Y	5Y	7Y	10Y	
3.00%	2.10%	3.26%	4.42%	5.64%	8.37%	12.53%	
3.25%	1.74%	2.79%	3.81%	4.92%	7.44%	11.32%	
3.50%	1.26%	2.07%	3.00%	4.01%	6.19%	9.59%	
3.75%	0.96%	1.66%	2.49%	3.41%	5.40%	8.55%	
4.00%	0.69%	1.29%	2.03%	2.86%	4.69%	7.60%	
4.25%	0.48%	1.01%	1.67%	2.42%	4.09%	6.80%	
4.50%	0.31%	0.74%	1.30%	1.94%	3.40%	5.78%	
4.75%	0.23%	0.60%	1.10%	1.68%	3.01%	5.22%	
5.00%	0.18%	0.50%	0.93%	1.46%	2.68%	4.73%	
5.25%	0.14%	0.41%	0.81%	1.28%	2.40%	4.30%	
5.50%	0.11%	0.35%	0.70%	1.12%	2.15%	3.92%	
5.75%	0.09%	0.29%	0.61%	0.99%	1.94%	3.59%	
6.00%	0.07%	0.25%	0.53%	0.88%	1.75%	3.29%	

Index Rat	es
Term	Rate
SOFR	4.300%
1M Term SOFR	4.316%
3M Term SOFR	4.295%
NY Fed 30 Day	4.347%
Eff. Fed Funds	4.330%
FF Target	4.500%
Prime	7.500%

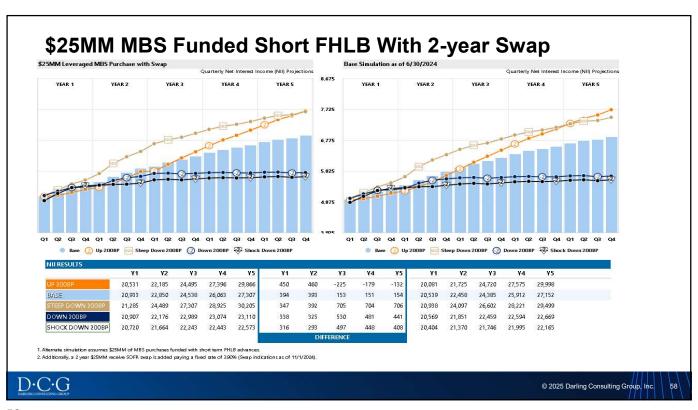
Strike	2Y	3Y	4Y	5Y	7Y	10Y
0.00%	0.03%	0.06%	0.11%	0.17%	0.32%	0.59%
1.00%	0.06%	0.15%	0.26%	0.38%	0.68%	1.19%
2.00%	0.16%	0.36%	0.60%	0.86%	1.46%	2.41%
2.50%	0.26%	0.56%	0.92%	1.30%	2.12%	3.40%
2.75%	0.33%	0.71%	1.13%	1.59%	2.55%	4.04%
3.00%	0.42%	0.88%	1.38%	1.92%	3.04%	4.74%
3.25%	0.53%	1.09%	1.69%	2.32%	3.63%	5.58%
3.50%	0.70%	1.39%	2.13%	2.89%	4.47%	6.79%
4.00%	1.10%	2.06%	3.05%	4.05%	6.08%	9.02%
4.50%	1.85%	3.24%	4.51%	5.78%	8.47%	12.36%
5.00%	2.64%	4.37%	5.98%	7.56%	10.83%	15.47%
5.50%	3.52%	5.61%	7.58%	9.50%	13.37%	18.81%
6.00%	4.43%	6.91%	9.25%	11.53%	16.03%	22.33%

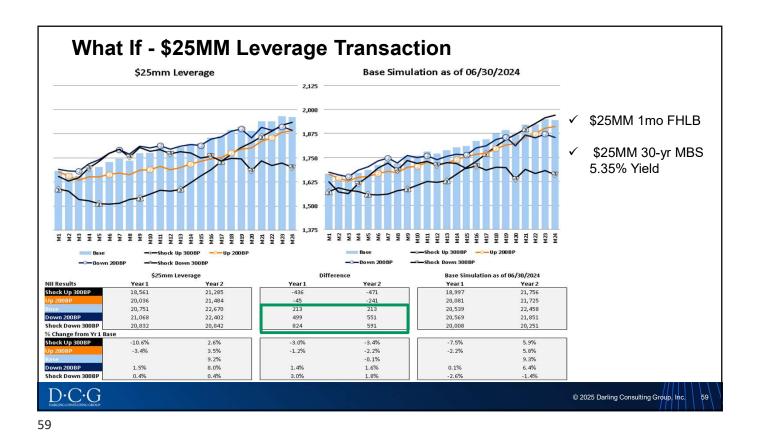
- 2yr, 3% Floor (6 Fed Cuts)
 - 42 bps (21 bps per year)
- Equates to 21k per \$10MM annually

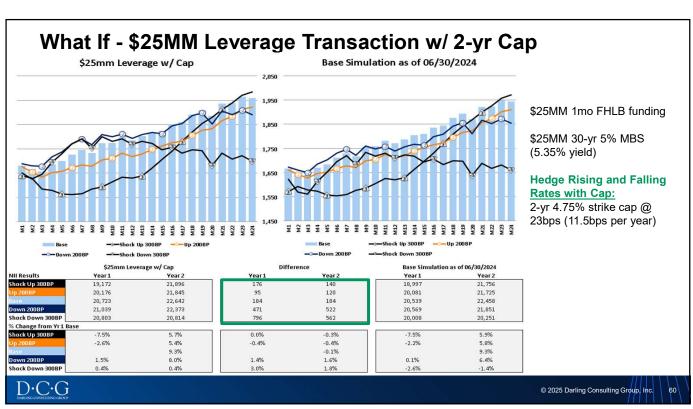
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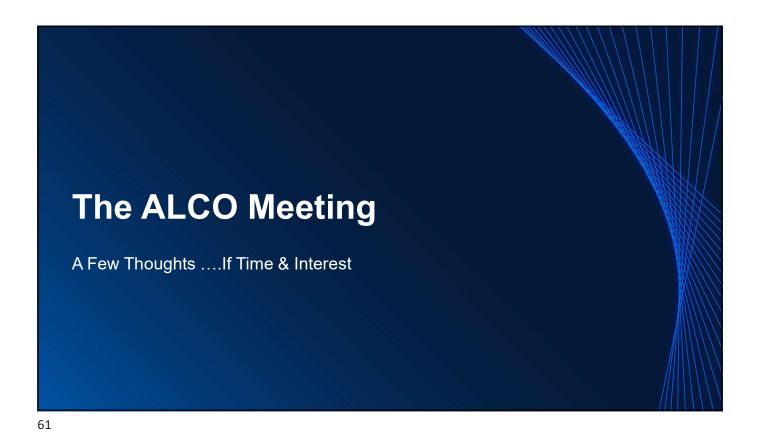
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Common ALCO "Grievances"

Too Much Detail

Backward Looking

ALCO
Paralysis

Regulatory Exercise

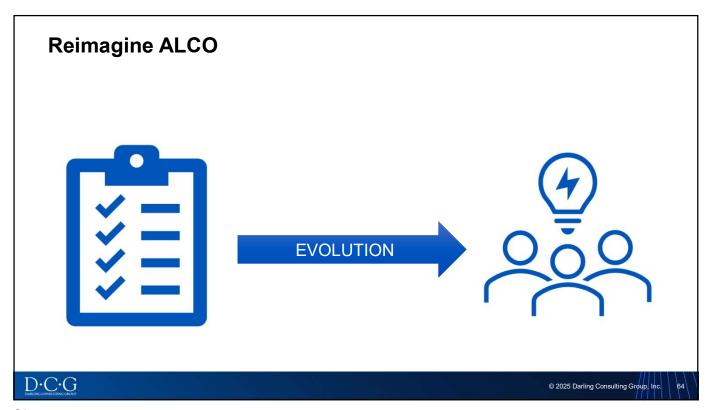
Lack of Trust in the Model

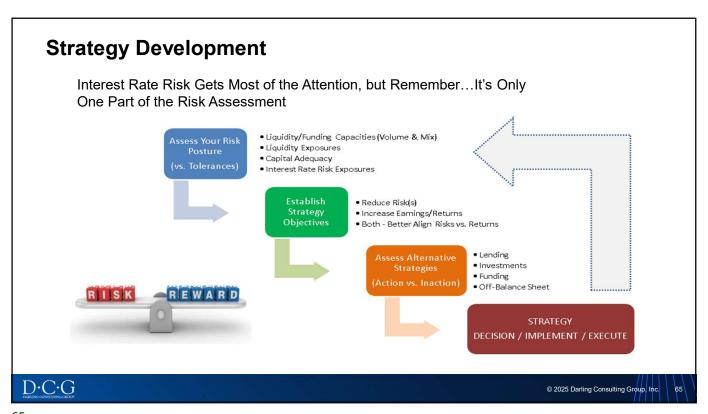
Focus on Bonds (Capital Markets)

STRATEGY

For Entire B/S





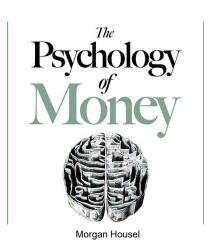




"TRUISMS" To Remember:

"Things that never happened before happen all the time."

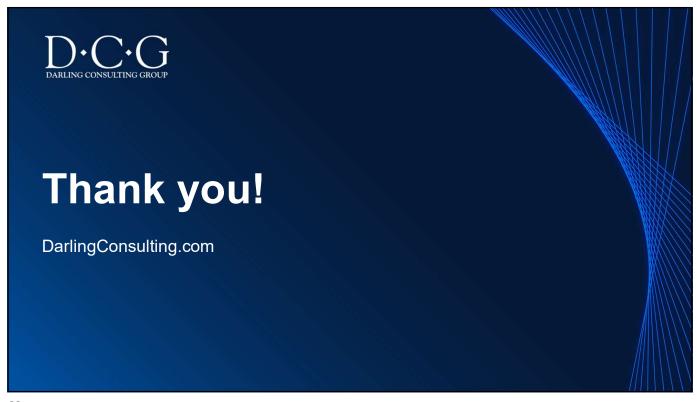
> ...Don't Assume Away the Unexpected



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2025 Tax Update for Financial Institutions

Rachel Scheve, CPA and Kimberly Wernimont, CPA RSM US LLP

2025 Tax Update for Financial Institutions

May 20, 2025



Presenters



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Agenda

- Federal Tax Update
- State Tax Update
- Industry Hot Topics



FEDERAL TAX UPDATE



General Outlook

- Reconciliation In Process
- Expiring Provisions
- Current Law vs Proposed Changes/Extensions



Budget Reconciliation

- Expedited process for considering federal budget legislation
 - Three specific areas of change: Mandatory pending (except social security), revenue and federal debt limit
 - One bill limit per subject per fiscal year (Max 3 resolutions, but usually combined)
- Why?
 - Most bills in the Senate need 60 votes; reconciliation only needs simple majority
 - Republicans have Senate majority, but only 53 seats
 - Overrides filibuster in the Senate



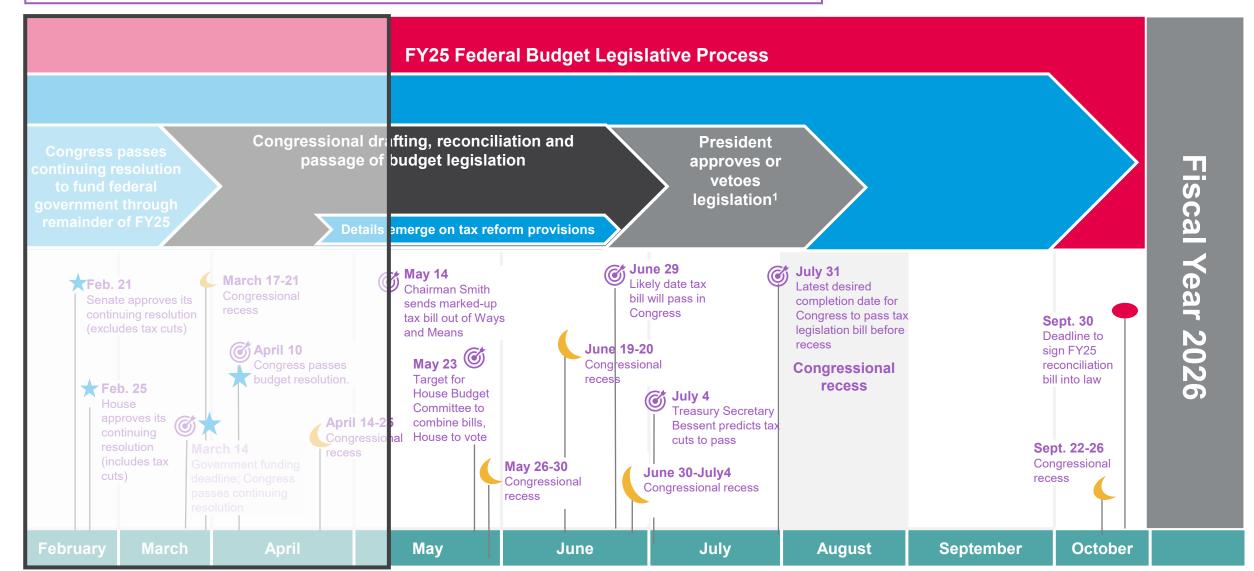
Budget Reconciliation (Cont'd)

- 1) Budget resolution
- 2)Committee Legislation
- 3)Omnibus Bill
- 4) Debate and Voting
- 5)Resolution of Differences
- 6)Presidential Action



Federal tax reform legislative timeline – FY25





Congressional Calendar

APRIL							
8un	Mon	Tues	Wed	Thus	FH	Sat	
		1	2	3	4	5	
6	7	8	9	10	11	12	
13	14	15	16	17	18	19	
20	21	22	23	24	25	26	
27	28	29	30				

MAY							
8un	Mon	Tues	Wed	Thurs	Fil	Sat	
A				1	2	3	
4	5	6	7	8	9	10	
11	12	13	14	15	16	17	
18	19	20	21	22	23	24	
25	26	28	29	29	30	31	

JUNE								
8un	Mon	Tues	Wed	Thurs	FH	Sat		
1	2	3	4	5	6	7		
8	9	10	11	12	13	14		
15	16	17	18	19	20	21		
22	23	24	25	26	27	28		
29	30							

JULY							
Sun	Mon	Tues	Wed	Thus	FH	Sat	
		1	2	3	4	5	
6	7	8	9	10	11	12	
13	14	15	16	17	18	19	
20	21	22	23	24	25	26	
27	28	29	30	31			

1	AUGUST							
I	8un	Mon	Tues	Wed	Thurs	Fil	Sat	
						1	2	
I	3	4	5	6	7	8	9	
ſ	10	11	12	13	14	15	16	
	17	18	19	20	21	22	23	
E	24	25	26	28	29	29	30	
L	31						43	

SEPTEMBER							
Mon	Tues	Wed	Thurs	PH	Sat		
1	2	3	4	5	6		
8	9	10	11	12	13		
15	16	17	18	19	20		
22	23	24	25	26	27		
29	30			1	9		
	1 8 15 22	Mon Tues 1 2 8 9 15 16 22 23	Mon Tues Wed 1 2 3 8 9 10 15 16 17 22 23 24	Mon Tues Wed Thurs 1 2 3 4 8 9 10 11 15 16 17 18 22 23 24 25	Mon Tues Wed Thurs Fri 1 2 3 4 5 8 9 10 11 12 15 16 17 18 19 22 23 24 25 26		







Expiring Provisions – 12/31/25

- Corporate tax rate of 21% was permanent (no expiration)
- Individual (Pass through) provisions
 - Section 199A 20% Deduction for pass-through income
 - Significant for S-Corp financial institutions
 - Individual marginal tax rates would revert to pre-TJCA levels
 - Top Individual Rate: 37% to 39.6%
 - Other:
 - Standard Deduction
 - Personal Exemptions
 - SALT Limitation
 - Child Tax Credits
 - Estate and Gift Lifetime Exemption



Disclaimer:

Information in these slides are based on information available as of May 14, 2025. Current tax legislation discussions are live and ongoing. These slides may include information that has since changed.

RSM Tax Policy Website



Current and Proposed

Tax Rates			
	Current Law	Trump Campaign ¹	Proposals
Corporate income tax rate	21%	Decrease to 20% (15% for companies that make products in the US)	Not addressed
Individual income tax rate	Seven brackets 10%-37%	Extend TCJA	Make TCJA rates below 37% permanent



¹ Based on Trump and Vance speeches and press releases and the Trump-Vance campaign website.

Current and Proposed

Deductions			
	Current Law	Trump Campaign	Proposals
Deduction for qualified business income	20% deduction for qualified business income (exp. 12/31/25)	Extend deduction	Increase to 23%, Make permanent
Losses of noncorporate taxpayers	\$250,000 limitation (exp. 12/31/28)	Extend limitation	Modified
R&D expensing	R&D costs paid or incurred after 2021 must be capitalized and amortized over 5 years (U.S. research) or 15 years (research conducted outside U.S.)	Restoration of immediate expensing	Expensing of domestic R&D
Bonus depreciation	60% bonus depreciation for 2024; 40% for 2025; 20% for 2026; and 0% beginning in 2027	100% bonus depreciation	100% bonus depreciation
Business Interest Deduction (163j)	30% limitation on Adjusted Taxable Income (ATI) - which includes Depreciation and Amortization	Revert/extend to initial 2017 rules which did not include depreciation and amortization in ATI.	Temporary more favorable EBITDA rules



Current and Proposed

Other provisio	ns		
	Current Law	Trump Campaign	Proposals
Energy preferences	Various fossil fuel tax preferences and green energy incentives	Repeal certain energy credits and other IRA incentives. Retain fossil fuel preferences	Accelerating the phaseout of many credits/incentives and terminate credit transferability in certain situations



Trending Topics

- Top Individual Rate 39.6% on High Net Worth
 - \$2.5M Single/\$5M Married Filing Jointly
- State and Local Tax Limitation (SALT)
 - Hot Issue
 - Eliminate, Extend, or Adjust?
- Tax Breaks (or Eliminations)
 - Individuals earning \$150,000 or less
 - Tips
 - Overtime
 - Social Security
- External Revenue Agency
 - Tariffs
- Changes to TCJA Provisions



"Inflation Reduction Act" of 2022 – August 16, 2022

- Limited applicability to community banks
- Likely a target with new tax legislation
 - Rescind or reduce certain components
 - IRS Funding
 - Energy credits
- Corporate AMT of 15% for corporations with aggregated book income of \$1 billion of more
- 1% excise tax on repurchase of stock for publicly traded corporations
- IRS Audit Activity



Employee Retention Credit

- On September 14, 2023, a moratorium on processing of new claims was set in place.
 - Claim period is closed
- Voluntary Disclosure Program ended March 22, 2024
 - Repayment of ERC received, less 20%
- Claim Withdrawal
 - Unprocessed claims still available to withdraw
- IRS has returned to processing
 - Withdrawal claims
- Updated FAQs
 - Amended returns



Other Tax Considerations

- IRC 265/291[TEFRA Disallowed Interest]
 - Interest Disallowance related to tax exempt interest
 - 100% Section 265 (NBQ Securities S Corps & C Corps)

```
Total Average NBQ Securities x Interest Expense = Disallowed Interest
```

20% Section 291 (BQ Securities – C Corps only*)

```
Total Average BQ Securities x Interest Expense x 20% = Disallowed Interest
```

- Increase in disallowed interest with higher cost of funds
- Revised overall after-tax yield analysis to consider



STATE TAX UPDATE



State Tax Matters

- Nexus considerations
 - Physical presence
 - Employees, office locations, etc.
 - Economic Nexus
 - Concept that economic or financial activity in a state creates nexus
 - Most states will take position that there is economic nexus, if more than minimal contacts
 - Factor Presence Nexus
 - Nexus based on having \$XXX of receipts or property (may include loans or deposits)
- Volunteer Disclosure Agreements (VDAs)
 - Potential consideration as states become increasingly aggressive on nexus determination to limit risk



Pass-Through Entity (PTE) Tax

PTE Mechanics

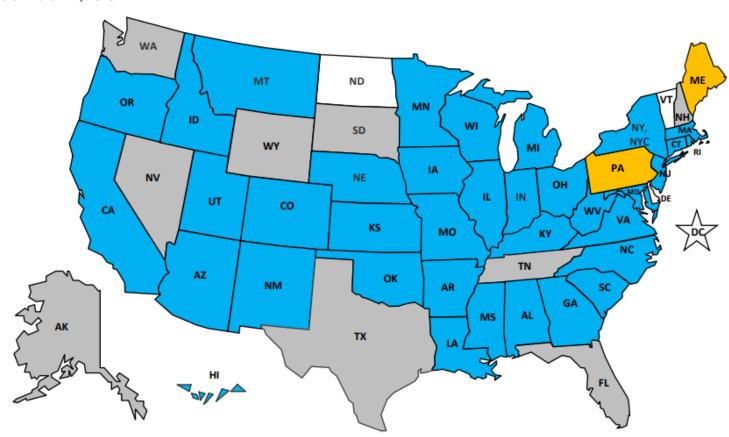
- More than half of the states have adopted PTE provisions to "work around" the SALT limitation
- Deductible on entity level federal return
- Provisions for filing requirements and credits to shareholders vary by state
- Generally, annual election
- What to Watch: Changing SALT Cap

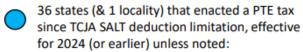


State pass-through entity-level taxes (State and local tax (SALT) deduction limitation workaround as of March 27, 2025)

States with Enacted or Proposed Pass-Through Entity (PTE) Level Tax

As of March 27, 2025





AL, AR, AZ, CA², CO³, CT¹, HI, GA, IA³, ID, IL², IN, KS, KY (& KY), LA, MA³, MI³, MD, MN³, MO, MS, MT, NC, NE, NJ, NM, NY, OH, OK, OR², RJ, SC, UT², VA⁴, WI, WV, and NYC

Mandatory 2018-2023, elective starting 2024
 State PTET expires on Dec. 31, 2025 (CA, IL, OR, UT)

³ State PTET expires when the federal cap expires or is otherwise not in effect (CO, IA, MA, MI, MN)

⁴VA - HB 1600 – pending - passed legislature with one-year PTET extension until Dec. 31, 2026, Governor vetoed and recommended to make PTET permanent

2 states with active proposed PTE tax bills: ME - LD 191, HP 124 in Comte. on Taxation PA - SB 396 referred to Finance

9 states with no owner-level personal income tax on PTE income:

AK, FL, NH, NV, SD, TN, TX, WA, WY

4 states with an owner-level personal income tax on PTE income that have not yet enacted or & do not have an active proposed bill on PTE taxes: DC, DE, ND, and VT





Iowa Tax Law Changes

- Pass-Through Entity Tax (SALT limit workaround)
 - Retroactive to 1/1/2022
 - Deadline to elect for 2022 passed April 30, 2024
- Mechanics
 - Annual, binding election for all shareholders
 - Applicable for years SALT limitation is effective
 - Rate is equal to top individual rate for the year [3.8% in 2025]
 - Satisfies non-resident shareholders' filing obligations, if only income subject to Iowa tax
 - Eliminates composite return requirements
 - Franchise tax credit reduces amount of PTE due
 - Analysis needed in conjunction with Franchise credit to determine if election if advisable
 - Individual credit for member's share of PTE limited to inverse of the tax rate paid (1-PTE Tax Rate). In 2025, this means shareholders can get credit of 96.2%
 - Refundable
 - Estimated tax payments required beginning in 2024.



Iowa Tax Law Changes (Cont'd)

- Individual tax rate reduces to a flat 3.8% in 2025
- Financial Institution Franchise Tax Rate
 - 2025 Rate drops to 4.1%
 - Phasedown continues to 3.5% in 2027 (0.3% per year)
 - Deferred taxes impact



Iowa Tax Law Changes (Cont'd)

- Sales Tax | Digitally Delivered Goods and Services
- What is exempt?
 - Digital products: music, audio, video/images, news/information products, digital entertainment
 - All software
 - Storage of electronic files, documents, other records
 - Information services: access to databases, surveys, rating reports, price lists, etc.
 - Installation, maintenance, operation, upgrade of digital goods or software
 - SaaS
- Support/Maintenance/Installation of software/digitally delivered products is exempt as well.



Iowa Tax Law Changes (Cont'd)

- Investment Subsidiary [SF 2442]
 - Effective January 1/1/2025
 - Allows creation of Investment Subsidiary
 - Election to include income and expenses on Franchise Tax return
 - Permanent election
 - Apportionment: Same as financial institution
 - Rewards and Risks
 - Rewards: Workaround TEFRA Disallowance
 - Risks: Separate entity, with business purpose
 - Considerations
 - Additional costs vs actual savings



HOT TOPICS



Tax Planning – Dropping Tax Rate and/or Interest Rate Environment

- Revisit various timing differences to capture tax rate change arbitrage (i.e. defer income to lower tax rate year / accelerate deductions into higher tax rate year):
 - Tax depreciation, cost segregations studies, tangible asset regulations ("TARs") reviews
 - Prepaid expense, recurring item methods of accounting
 - Cash method of accounting
 - Deferred loan costs (FAS91)
 - Deferred loan fees (fees charged for services or commitment fees vs. for the use or forbearance of money ("points") / OID)
 - Accrued bonus
 - Balance sheet repositioning (i.e. sale of underwater bonds paired with sale of appreciated assets)
 - Sale / Leaseback transactions



Entity Choice Considerations

- Tax Rates
 - Individual vs. Corporate
- Expiring or Extended Provisions
 - Qualified Business Income Deduction
- Distribution Levels
 - Double Taxation
- Long term plans
 - Hold forever or potential sale?
 - Basis considerations
- No 'one-size-fits-all' answer!



Sale-Leaseback Transactions

GAAP Treatment

- Financing Lease | Failed sale, no gain,
 capitalize lease under ASC 842
- Operating Lease | Recognize gain immediately

TAX Treatment

Recognize gain immediately

Finance Lease if One or More is Met:

- Ownership of the underlying asset transfers to the lessee by the end of the lease term.
- A bargain purchase option is included in the lease.
- The lease makes up a major part of the asset's economic life (75%).
- The present value of the lease payments is equal to or exceeds substantially all the underlying asset's fair value (90%).
- The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.



Employee Stock Ownership Plans

Benefits:

- Succession planning
- Attract and retain employees
- Tax advantages

Considerations:

- Regulatory issues (bank holding company)
- Compliance costs









Ethical Considerations for Generative AI in the Workplace

Michael Bootsma, CPA, J.D., LLM, CMA | Iowa State University

SPECIAL NOTE:

Prior to attending this session, please complete the following pre-conference survey. Survey results will be used during the session.

https://iastatebusiness.az1.gualtrics.com/jfe/form/SV 1TWUCixUv3AjOLs

ETHICAL CONSIDERATIONS FOR GENERATIVE AI IN THE WORKPLACE

IOWA SOCIETY OF CPAS FINANCIAL INSTITUTIONS CONFERENCE

Michael J Bootsma, JD, LLM, CPA, CMA <u>mbootsma@iastate.edu</u>

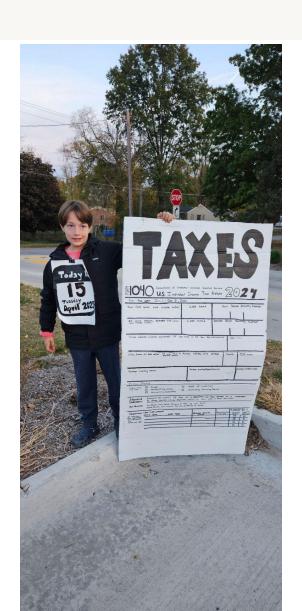


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TABLE OF CONTENTS

- Basic overview of AI generative vs application specific
- How AI is being used in the business setting
- Regulation of Al
- Legal Considerations
- Pending Litigation Re Al
- Ethical implications for those using Al
- Implementing a company policy for AI use

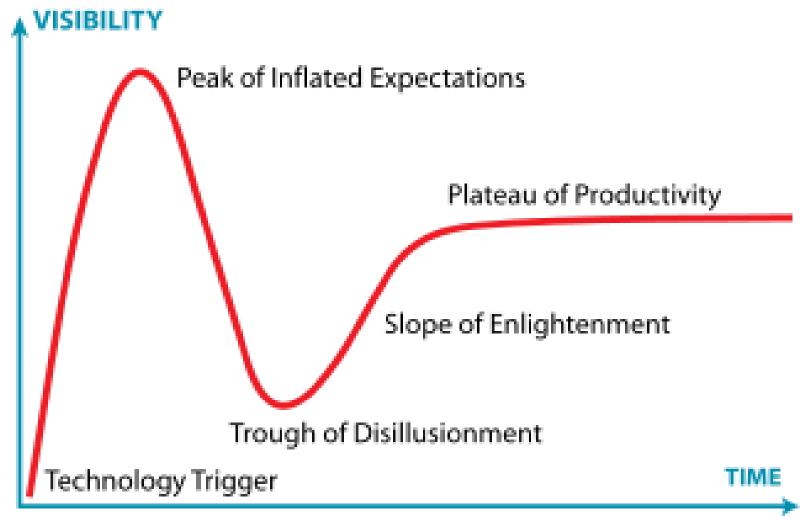
ARTIFICIAL INTELLIGENCE



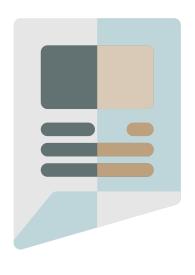
What is scarier than AI?

- Death and taxes!!!!

GARTNER HYPE CYCLE

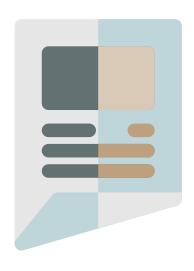


APPLICATION SPECIFIC ARTIFICIAL INTELLIGENCE



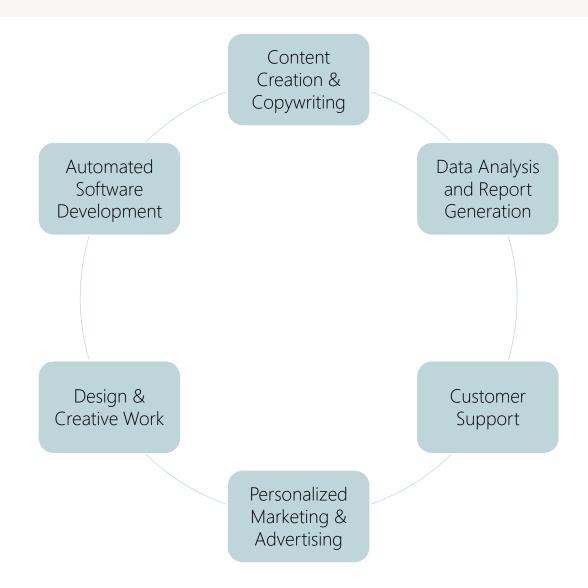
- Tailored artificial intelligence systems engineered to address
 precise tasks or challenges within designated domains, optimizing
 performance and efficiency for specific applications or industries
- Advantages:
 - Domain specific expertise
 - More easily customized to an industry
 - Easier and Faster to train
 - Clear performance records

GENERATIVE ARTIFICIAL INTELLIGENCE



- A form of artificial intelligence that produces original content, such as text or images, through the assimilation and application of patterns learned from existing data.
- Advantages:
 - Flexible and Versatile
- Disadvantages
 - Can confidently present incorrect information
 - Unknown sources
 - Difficult to train (Chat GPT had 300 billion words or 530 GB) (OpenAI)

GENERATIVE AI USES



GENERATIVE AI: BUSINESS USES



- Tools:
 - ChatGPT, Google Gemini, Copilot, Cactus Al, Tome
- Examples:
 - Using generative AI to write a memo
 - Using generative AI to rephrase/reword a memo
 - Using generative AI to find content for a memo
 - Using generative AI to make an image for a memo

AI IN BUSINESS: OPPORTUNITIES & PITFALLS

Opportunities

- 1) Automation
- 2) Idea generation
- 3) Research
- 4) Analysis
- 5) Others?

Pitfalls

- 1) Misinformation
- 2) Lack of critical thinking & problem solving
- 3) Deception
- 4) Misappropriation of information
- 5) Others?

POLLING QUESTION 1:



Have you used Generative AI?

If so, which generative AI platforms have you used?

REGULATION



The EU has already passed the European Artificial Intelligence Act which regulates AI (to some extent)

Regulation was believed to be inevitable in the United States.

A few federal agencies have provided specific guidance in their areas.

The President of the United States has issued an executive order – Safe, Secure, and Trustworthy Development and Use of AI. See also the "The White House Blueprint for an AI Bill of Rights."

REGULATION



Some states such as Colorado and Virginia have passed somewhat comprehensive bills regulating AI

Some industries have reportedly started to created selfregulation of AI use. Examples include the insurance industry and the healthcare industry

LEGAL ISSUES



Common Legal Concerns

- 1. Negligence,
- 2. Fraud,
- 3. Copyright;
- 4. Privacy

NEGLIGENCE/NEGLIGENT MISREPRESENTATION



Requirements

- 1. The defendant owed the plaintiff a duty of care;
- 2. The defendant breached that duty of care;
- 3. Damages;
- 4. Factual and proximate causation

FRAUD

Requirements



- 1. The defendant made a misrepresentation;
- 2. The defendant knew of the deception;
- 3. The defendant intended to influence the plaintiff to act or refrain from acting;
- 4. The plaintiff justifiably relied on the defendant's misrepresentation; and
- 5. The plaintiff was damaged as a result.

COPYRIGHT



- Both the US Copyright Office and a US Federal District Court have held that certain AI created works of "art" are ineligible for copyright protection since they are not works created by a human
- The remaining question is then how much human contribution is needed?

COPYRIGHT



According to a report produced by the Congressional Research Service: "The question of whether or not copyright protection may be afforded to AI outputs such as images created by DALL-E or texts created by ChatGPT—likely hinges at least partly on the concept of "authorship." The U.S. Constitution authorizes Congress to "secur[e] for limited Times to Authors . . . the exclusive Right to their . . . Writings." Based on this authority, the Copyright Act affords copyright protection to "original works of authorship." Although the Constitution and Copyright Act do not explicitly define who (or what) may be an "author," the U.S. Copyright Office recognizes copyright only in works "created by a human being."

COPYRIGHT

It went on to state: Courts have likewise declined to extend copyright protection to nonhuman authors, holding that a monkey who took a series of photos lacked standing to sue under the Copyright Act; that some human creativity was required to copyright a book purportedly inspired by celestial beings; and that a living garden could not be copyrighted as it lacked a human author. A recent lawsuit challenged the human-authorship requirement in the context of works purportedly "authored" by AI. In June 2022, Stephen Thaler sued the Copyright Office for denying his application to register a visual artwork that he claims was authored "autonomously" by an AI program called the Creativity Machine. Dr. Thaler argued that human authorship is not required by the Copyright Act. On August 18, 2023, a federal district court granted summary judgment in favor of the Copyright Office. The court held that "human authorship is an essential part of a valid copyright claim."

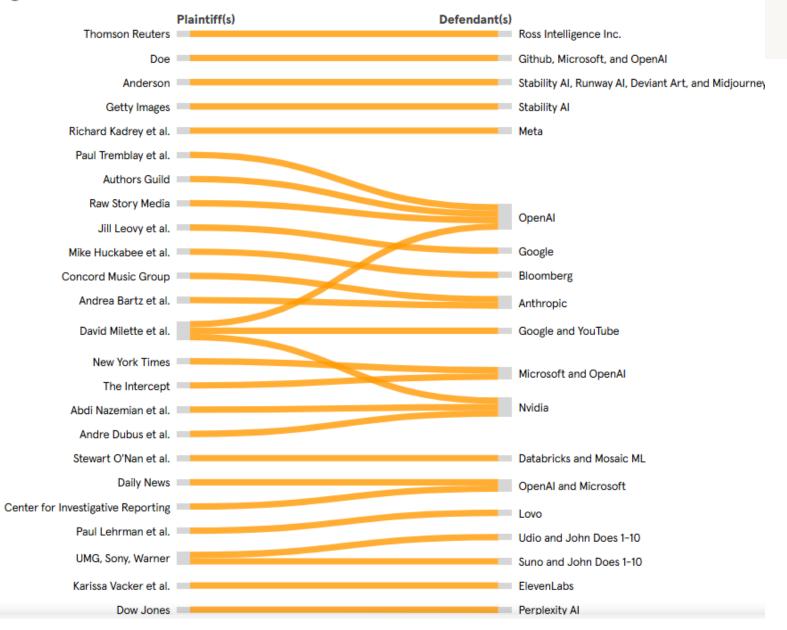
POLLING QUESTION #2



What legal concerns do you see arising if you were to utilize generative Al in your daily job?



Who's Suing Who?



AI CASES - COPYRIGHT & TRAINING



Date Filed: 9-19-2023



- Authors Guild filed a class-action complaint against OpenAI LP
- OpenAI LP used copyrighted materials written by the authors to train their large language model (LLM)
- Plaintiffs claim that these LLM's hurt fiction writers' livelihoods, especially since the models may output derivatives of the original writers' works
- Willful copyright infringement: ChatGPT accurately generated summaries of books protected under copyright law
- Impersonating authors: Author discovered books written under her name for sale on Amazon
- Resolution: Unresolved



AI CASES - COPYRIGHT & TRAINING



Date Filed: 2-3-2023

Summary of Facts:

- Getty Images claimed Stability AI copied 12 million photos from them without their permission.
- Claims they got the images off Getty Images' website without their permission.
- Claims Stability AI used those images to train their Stable Diffusion Model to generate images based on text prompts. Getty Images' photos are valuable to AI models because they contain a lot of specific metadata in their captions and watermarks.
- Stable Diffusion Model also produces Getty Images' images with altered watermarks or altered images that harms Getty Images' reputation.
- Resolution: Unresolved



AI CASES - COPYRIGHT & TRAINING



hiQ Labs, Inc. v. LinkedIn Corp.

Date Filed: 6-7-2017

Summary of Facts:

hiQ offers two software AI products-based on scraping LinkedIn data:

- Keeper Determines the employees most likely to leave your organization. You can either remove their access or try to retain them
- Skill Mapper Finds gaps in workforce knowledge
- LinkedIn profiles are by default public. LinkedIn has implemented anti-scraping measures. In June 2017, LinkedIn came out with Talent Insights to analyze employee data based on their user data base.

AI CASES - COPYRIGHT * TRAINING



- hiQ Labs, Inc. v. LinkedIn Corp. Continued
 - LinkedIn issues a cease-and-desist regarding platform access to hiQ Labs, Inc. If the LinkedIn data was used, hiQ Labs would be in violation of the Computer Frauds and Abuse Act (CFAA), Digital Millennium Copyright Act, California Penal Code § 502 (c), common law trespass. The access is imperative to hiQ Labs, because without the data, hiQ is likely going to have to cease operations and would have to breach on contracts with eBay, Capital One, and GoDaddy. hiQ filed an injunction to continue being allowed access to LinkedIn data.
- Resolution: 8-14-2017
 - Injunction was granted for hiQ and upheld by higher courts
 - However, data scrapers may still be subject to "copyright infringement,
 misappropriation, unjust enrichment, conversion, breach of contract, and breach of
 privacy" pg. 41
 - Court said that LinkedIn is justified in implementing measures that blocked repeated requests (data scrapers) and denial-of-service attacks.

AI CASES - COPYRIGHT & FAIR USE



Kelly v. Arriba

Date Filed: 9-10-2001

Summary of Facts:

Kelly discovers Arriba is using 35 of his copyrighted images without his permission.

- Kelly files a lawsuit against Arriba for Copyright Infringement.
- Arriba deleted the used images from his cite and state they won't use his cite for images again.
- Arriba's accidentally obtains more images of Kelly's from a third-party website
- Arriba follows the same protocol by deleting the photos from their software and stating the third-party web site as no longer a source for their images.

AI CASES - COPYRIGHT & FAIR USE



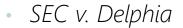
- Kelly v. Arriba Continued
- Resolution: 2-6-2002, Withdrawn 7-7-2003, Refiled 7-7-2003
 - The court ruled the Fair Use factors as two in favor for Arriba, one in favor for Kelly, and one in favor of neither.
 - Ultimately, the court ruled that Arriba use of Kelly's image as thumbnails is protected by the Fair Use Exemption in Copyright law.
 - However, this ruling had to be reversed because neither party moved to summary
 judgement and this was beyond the scope of the court by what was provided by both
 parties.

FAIR USE

Four Factors Considered

- Nature of the use
- Nature of the copyrighted work
- Amount and character of portion used
- Effect of the use on economic value of work

AI CASES — IMPROPER DISCLOSURE OF AI CAPABILITY





- Made false and misleading statements in its SEC filings, in a press release, and on its website regarding its purported use of AI and machine learning that incorporated client data in its investment process.
- For example, according to the order, Delphia claimed that it "put[s] collective data to work to make our artificial intelligence smarter so it can predict which companies and trends are about to make it big and invest in them before everyone else." The order finds that these statements were false and misleading because Delphia did not in fact have the AI and machine learning capabilities that it claimed.
- Violated the Marketing Rule, which, among other things, prohibits a registered investment adviser from disseminating any advertisement that includes any untrue statement of material fact.
- Resolution: 3-18-24
 - \$225,000 fine



AI CASES - IMPROPER DISCLOSURE OF AI CAPABILITY



- SEC v. Global Predictions Inc.
- Summary of Facts:
 - Made false and misleading claims in 2023 on its website and on social media about its purported use of AI.
 - For example, the firm falsely claimed to be the "first regulated AI financial advisor" and misrepresented that its platform provided expert AI-driven forecasts.
 - Violated the Marketing Rule, falsely claiming that it offered tax-loss harvesting services and included an impermissible liability hedge clause in its advisory contract, among other securities law violations.
- Resolution: 3-18-24
 - \$175,000 Fine

AI CASES - PRIVACY



PM v. OpenAl

Date Filed: 6-28-2023

Summary of Facts:

Class Action lawsuit against OpenAI in 2016

 Plaintiffs all reasonably believed that their information would not be used for commercial purposes and did not consent to their use.

 Plaintiffs alleged data input into ChatGPT and third-party websites was collected by OpenAl

Claimed the defendant (OpenAI) stole their information.

Resolution: 9-15-2023

Dismissed

AI CASES - PRIVACY



J.L. v. Alphabet Inc

Date Filed: July 11, 2023

Summary of Facts:

 Defendants claim web scraping for LLM training purposes violated their copyright and, moreover, would imply an unauthorized and widespread misappropriation of copyrighted works extending across a wide spectrum of industries that depend on creative content creation.

Data collected does not fall under the umbrella of fair use.

Web scraping violated and continues to violate the plaintiffs' property interests.

Resolution: Unresolved

AI CASES – PHANTOM INFORMATION



- Kruse v. Karlen
- Summary of Facts:
 - Filed for an appeal to take the case to the Court of Appeals
 - Appellant (Karlen) was representing himself "pro se" (Failed to file an appendix)
 - Only 2 out of 24 (8.3%) citations the Appellant provided were accurate due to his reliance on AI - Last effort to defend himself was to use generative AI to assist in preparing court documents
- Resolution: 2-13-2024
 - Appeal was dismissed due to frivolous appeal
 - Karlen (Appellant) ordered to pay \$10,000 to Kruse (Respondent) in damages

AI CASES – PHANTOM INFORMATION



- McComb v Best Buy, Inc
- Summary of Facts:
 - Plaintiff was representing himself "pro se"
 - Ordered to file an amended complaint by the Court
 - Sternly reminded not to use Al

AI CASES - PHANTOM INFORMATION



- United States v. Steven A. Schwartz
- Summary of Facts:
 - Steven A. Schwartz used ChatGPT for legal research
 - Roberto Mata sued Avianca Airlines for personnel injury from being hit by a metal serving cart.
 - Avianca's legal team would write to the judge that they couldn't find several cases mentioned in Mata's response.
 - Schwartz eventually came out and stated he had used ChatGPT when conducting research
 - 6 fake cases were created by ChatGPT.
 - Steven failed to research and check the authenticity of the cases
- Resolution: 5-4-2023
 - \$5,000 Fine

AI CASES - DISCLOSURE



- In re Celsius Network LLC
- Summary of Facts:
 - Hussein Faraj was engaged as an expert witness by a creditor in a bankruptcy case
 - Expert submitted a report written by generative AI
- Resolution: 2023
 - The written report was inadmissible but the expert could still give his verbal opinions in court

POLING QUESTION #3



Based upon the cases we just covered, which of the following do you think could arise if a public power employee used generative AI to analyze customer payment accounts?

- a) Copyright infringement
- b) Fraud
- c) Invasion of privacy

GENERAL ETHICAL CONSIDERATIONS



- Accuracy and Bias
 - Training data
 - Non-experts creating content
- Data Privacy and Security
 - Sensitive data
 - Data protection regulations
 - Public trust
- Job Displacement
- Unlawful activity
 - IP theft
 - Malicious automation
 - Deepfakes

COMPANY POLICY

Implementation

1) Create objectives

Reduce manual tasks

Increase productivity

Decrease manual data entry errors

Develop new markets

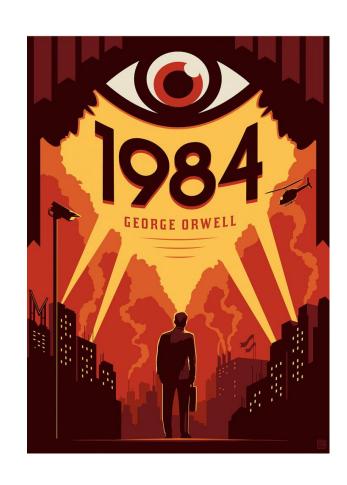
- 2) Assess risk of utilizing Generative Al
- 3) Create a framework

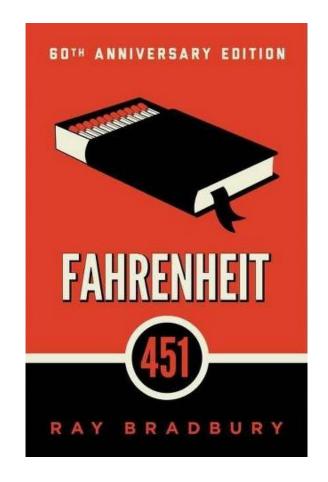
COMPANY POLICY

What Should a Company Policy State?

- 1) Permissible uses
- 2) Impermissible uses
- 3) Disclosure mechanism
- 4) Penalties for noncompliance

RISKS





POLING QUESTION #4



Does your company have an AI use policy?

- a) Yes
- b) No
- c) Unsure

ETHICAL CONSIDERATIONS FOR GENERATIVE AI IN THE WORKPLACE

IOWA SOCIETY OF CPAS FINANCIAL INSTITUTIONS CONFERENCE

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Optimizing Core Processing for Cost Savings

Doug Latare | ICI Consulting





Optimizing Core Costs

Doug Latare

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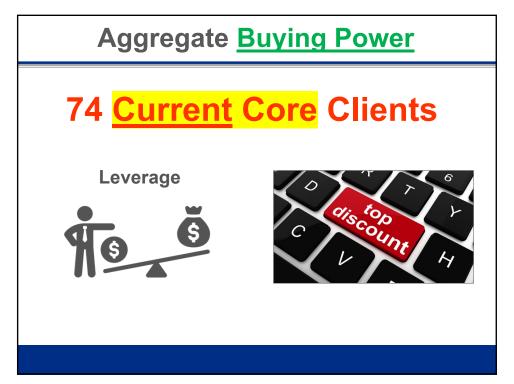
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Agenda

- How can you position your FI for the best Fintech pricing?
- Slash Costs: Core & Ancillary Systems
- Core Sales Strategies & Tactics
- Contract Terms









Core Vendor Sales Strategies



5

Core Vendor Insight: Last 5 Years

316 Core Evaluations

41% => Core Conversions



200 Core Pricing Analyses

- Examine Last 3 Invoices
- Savings Projection over 5 to 7 Years
- Pricing 15% to 65% High



7

Current Costs

• Core: \$

• Digital Banking: \$

• Bill Pay: \$

• Mobile: \$

• Debit Card Processing: \$

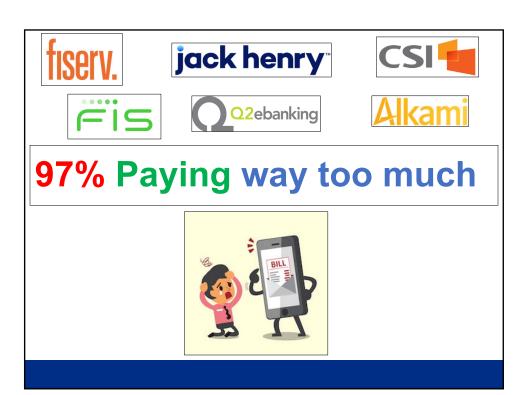
Network Services: \$

• Item Processing: \$

Removed Pass Through Costs







9

How do Core Vendors set Pricing?

- Asset Size
- # of transactions
- Acquisition mode
- Risk of Leaving?



Core Renewals & Pretend Competition

- Renewals / No Competition: 90% Failure
- Pretend Competition...very dangerous
- Checkmate



11



Core Vendor CEO: Onsite or Corp Visit

- Why are they there?
- Internal Strategy Sessions
- Questions for you
- Corporate Visit.... Home Field Advantage



13

What Determines Aggressive Price Deal?

- 1. Current Pricing
- 2. Runway
- 3. Contract Term
- 4. Risk / Core Vendor's Read



Core Vendor's Read on Conversion

Enough pain to consider converting?

- Service Level Issues
- Capabilities
- Conversion disrupt FI's Business Plan?
- FI Rapport Strength



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Core Vendor's Read on Conversion

- RISK
- Salesperson vs. Account Manager
- Salesperson = Discretion



Core Vendor's Preferences

In Order of Preference: NO COMPETITION

- 1. Client Auto-Renews
- 2. Client Renews Solo without a Consultant
- 3. Straight Up Renewal with Consultant
- 4. Core Evaluation with Consultant



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Core Vendor Perspective

Optics, Optics, Optics

- Vendor websites
- Satisfaction Surveys
- 36 Months
- Body Language.....





Festivus Airing of the Grievances

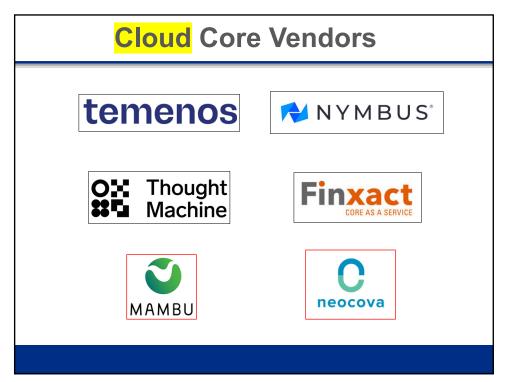


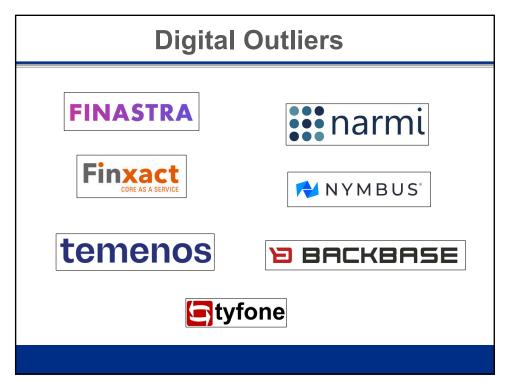
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Insurance Policy

+300 Contractual Terms









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Mitigate risk & reduce Core Processing costs?

- Flat-rate vs. Tiered Pricing
- Acquiring Branches & Fls



Termination Costs

- Early Termination Fees
- De-Conversion Fees



25

Sage Advice

- CPI
- "Read upside down"



Bundling

Bundle Ancillary Systems



27

Auto Renew Clause

- Auto Renew Clause in most core contracts
- Scan & Email + Certified Letter
 - Do not wish to auto renew
 - Well timed
 - Send to Core Executive



Throw Out the Bad

- Purge Dormant Accounts
- Negotiate lower monthly minimums for products



29

Freebies

- Telco Costs
- Negotiate ongoing costs in ATCs
 o Professional Services



Thinking Ahead

• Negotiate future optional products at reduced rate



31

Long Term Core Contracts

- Price deals for 7-10 year contracts
- Rock Solid Terms
 - o Out-clause
 - o Maintenance Terms



Contractual Terms

- Channels
- Any service with a deadline



33

Contractual Terms

- Monthly SLA reports
- Penalties do not always make a bad situation better but....



RFP Process

- · Take nothing for granted
- Never assume feature is in every system
- · Do not download a free RFP
 - o Not take you seriously
 - o High bid or No bid



35

Training: Onsite vs. Offsite

- # of FTEs getting trained directly
- Onsite: Will trainees be interrupted?
- Offsite Travel Costs



Site Visits & References Checking

- Site Visits
- Anti- Customer List
- Issues Resolution Process

o SLAs



37

Meeting Exit Suggestions

- Meeting End / last 30 seconds
- Social
- Enormous Postmortem



Core User Conferences

- Competing Vendor User Conferences
- · Chat with other FIs



39

Low Bidders

• Leverage low-cost vendor option



Free Core Strategy or Pricing Analysis

Discussion Subjects

- Core Vendor Insight
- Specific Negotiation Questions
- RFPs
- Core Conversions

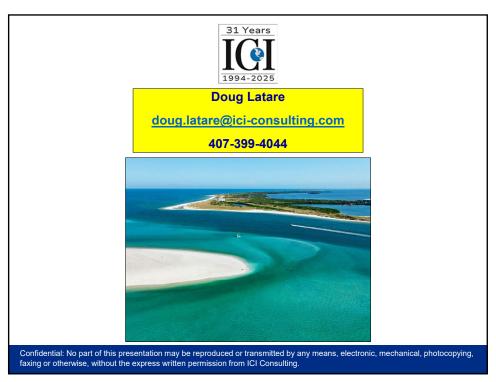


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Upcoming Webcasts

- Unlock Core Savings: June
- Core Negotiation Nuances: July
- Core Conversion Best Practices: Aug
- Core Top Providers: Inside The Big 5: Sept





About ICI

Based in St Petersburg, FL, ICI has been a leading bank advisor nationwide since 1994. Serving over 820 financial institutions, including more than 1,290 consulting engagements, ICI's highly qualified consultants support banks by providing core processing assessments, contract negotiations, gap analyses, vendor evaluations, and conversion services. ICI is well known for saving clients time and money during core processing & ancillary systems evaluations and negotiations with the providers of these business-critical solutions.



Our Services

- Assessments & Strategic Recommendations
- Core and Digital Vendor Evaluations
- Core Processing Contract Negotiations
- Ancillary System Evaluations
- Core Conversions Project Management

FREE CORE PRICING ANALYSIS



Your ICI Contact:

Doug Latare, CEO Office (800) 729-8237 doug.latare@ici-consulting.com



CLIENT TESTIMONIAL

ICI Services

Our extensive core vendor and banking experience allows us to offer you the following Consulting Services:

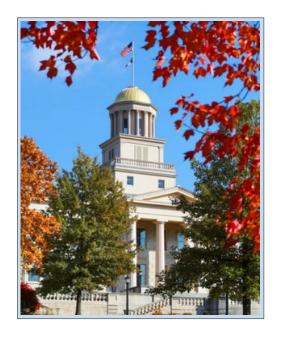
- ◆ Core Renewal Negotiations
- ♦ Competitive Core Evaluations: RFP through Core Vendor Selection
- ♦ Contract Negotiations
- Project Manage Core Conversions
- Assessment, Gap
 Analysis and Strategic
 Recommendation
 Reports
- ♦ Business Cases: In-House vs. Outsourcing

About ICI Consulting

Since 1994, ICI is a consulting firm that supports financial institutions by providing core processing assessments, contract negotiation, gap analyses, vendor evaluations, and conversion services.

Contact ICI Consulting:

800-729-8237 info@ici-consulting.com or visit www.ici-consulting.com





www.amesnational.com

Ames National Corporation Praises ICI for its Key Role in Core Renewal Project

"Our ICI consultant went above and beyond to keep the negotiations moving forward in a positive direction. We shared our strategic goals, and she played a key role in effectively communicating them to our core vendors.

As advertised, ICI's process and expertise helped to deliver a contract that makes our company management, and the Board of Directors, quite happy."

Joel Regenwether SVP/Operations Project Manager **Ames National Corporation**



CLIENT TESTIMONIAL



Our extensive core vendor and banking experience allows us to offer you the following Consulting Services:

- ◆ Core Renewal Negotiations
- ♦ Competitive Core Evaluations: RFP through Core Vendor Selection
- Contract Negotiations
- Project Manage Core Conversions
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UNION BANK CO. . www.theubank.com



The Union Bank Company moves to Candescent

"When it was time for us to consider an early contract renewal with our core provider, we partnered with ICI Consulting to guide us through the process. Our experienced consultants lead us through an intensive, year-long journey. Simultaneously, we were negotiating with a separate third party for a new digital platform provider.

Our ICI consultants' professionalism and expertise provided much -needed support and reassurance. With their objective perspective and pragmatic approach, not clouded by emotion or frustration, we were able to gain clarity while making difficult decisions setting ourselves up for a successful contract period.

The Union Bank Company gives other financial institutions our highest recommendation to hire ICI Consulting!"

Klint Manz
Chief Financial Officer
The Union Bank Co.





CORE CONVERSION TESTIMONIAL

ICI Services

Our extensive core vendor and banking experience allows us to offer you the following Consulting Services:

- ◆ Core Renewal Negotiations
- ♦ Competitive Core Evaluations: RFP through Core Vendor Selection
- ♦ Contract Negotiations
- ◆ Project Manage Core Conversions
- Assessment, Gap
 Analysis and Strategic
 Recommendation
 Reports
- ♦ Business Cases: In-House vs. Outsourcing

About ICI Consulting

Since 1994, ICI is a consulting firm that supports financial institutions by providing core processing assessments, contract negotiation, gap analyses, vendor evaluations, and conversion services.

Contact ICI Consulting:

800-729-8237 info@ici-consulting.com or visit www.ici-consulting.com



www.mutualcu.org



Mutual FCU Converts to Jack Henry Symitar

"Working with the ICI Consulting Project Management Team on our recent core conversion was an outstanding experience. The entire project was completed on time and without interruption to our service, a testament to their expertise and commitment.

ICI handled vendor coordination seamlessly, keeping all parties aligned and on schedule. Their strong industry relationships and internal resources were invaluable throughout the project. With their team managing the heavy lifting, our staff could stay focused on their roles, which made the transition incredibly smooth.

I highly recommend partnering with ICI Consulting if you are considering a core conversion. Their professionalism, guidance, and support made all the difference for us."

Michael Mathews
CEO
Mutual Federal Credit Union



The Regulatory Landscape: Insights from Experts

Greg Goff | Risk Management Examiner, FDIC Michael Holdren | Partner, Eide Bailly LLP (moderator) Chris Kumpf | Senior Credit Union Examiner, State of Iowa Scott Saunders | Bank Analyst, Iowa Division of Banking



2025 Financial Institutions Conference

The Regulatory Landscape: Insights from Experts

Greg Goff | Risk Management Examiner, FDIC

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Scott Saunders | Bank Analyst, Iowa Division of Banking

NOTES



Financial Institution Mergers and Acquisition Update

Blake Crow, CPA, MBT | Eide Bailly LLP



CPAs & BUSINESS ADVISORS

MERGERS AND ACQUISITION UPDATE

ISCPA Financial Institutions Conference

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PRESENTER



Blake Crow, CPA
Partner
Des Moines, Iowa



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AGENDA

Transaction Volume

Transaction Pricing

Unrealized Bond Loss Impact on Transactions and Planning Opportunities

CECL Impact and Pending Changes

FRB Small Bank Holding Company Policy Statement Considerations

Structure and Taxation





Transaction volumes continue to be suppressed below historical norms

Activity has been suppressed since 2020, resulting in belief of substantial pent-up activity on both the buyer side and seller side

Primary drivers of lack of activity:

Initially, uncertainty around COVID (2020)
Followed by drastic interest rate increases, resulting in significant unrealized bond losses at many institutions (more on this later)

TRANSACTION VOLUME, CONT.

While activity has been down, it hasn't been non-existent as there are some transactions continuing to get completed, including in lowa



There is significant common belief that a reduction in interest rates, which would decrease unrealized bond losses, would lead to an unleashing of the backlog of transaction activity



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TRANSACTION PRICING

Most transactions are private without details disclosed

Experience indicates both a broad range of pricing, and significant deviation from general, especially publicly traded, market pricing

Majority of transactions are at a premium, but that is likely skewed by the fact that sellers that can't get what they "want" simply don't sell

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TARGET SIZE AND PURCHASE PREMIUM



Conventional wisdom suggests the larger an institution, the great the efficiency, and as a result the higher the premium



However, in transactions related to privately owned community banks, this logic does not always hold true



For transactions related to privately held community banks, the market is not always "rational"







TRANSACTION PRICING, CONT.

- If had to pick a number, 1.50 1.60x base capital seems to be average, but transactions range from as low as book to as high as 2.00x
 - This can also be heavily skewed depending on how unrealized bond losses are treated in determination of capital upon which premium is paid
 - Infinite combination of ways to handle unrealized bond losses
 - Most common is to "split" 50/50
 - · Often times will include downside protection for buyer





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BOND LOSSES — WHAT'S THE BIG DEAL?

- Buyer and seller have opposing viewpoints of impact of unrealized bond losses, neither of which are wrong:
 - From a seller's perspective, it's an unrecognized loss that, if the bonds are held to maturity, buyer will come
 out "whole"
 - From a buyer's perspective, through the acquisition accounting process, Day 1 regulatory capital is
 destroyed and must be accreted back into income over the duration of the portfolio, resulting in reduced
 regulatory capital initially
 - This shortfall will either have actual (additional borrowing to backfill shortfall to meet capital minimums) or theoretical (utilizing existing excess capital to cover shortfall) that come with a cost



NEGATIVE IMPACT TO REGULATORY CAPITAL

Through fine fair varieties, the unrealized bond loss in AOCI is added back and does not reduce regulatory capital (for most fine bonds are then considered to process, the balance sheet is

and that discount is accreted back

The offset to this write down increases goodwill.

bonds are written down.

marked to FMV meaning the

Goodwill reduces regulatory capital purposes, meaning the losses are effectively "realized"



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UNREALIZED BOND LOSSES NOT LIMITED TO AOCI

- Many banks reclassified AFS securities to HTM during rate increases to "freeze" AOCI and prevent reflection of further deterioration in AOCI
- These HTM securities still must get marked to market through the acquisition accounting processes, and as a result the mark to market adjustment on those bonds must also be considered when determining pro forma regulatory capital ratios
 - While not included in AOCI (AOCI distorted due to transfer), mark to market amounts on AFS and HTM securities can be found in RC-B of Call Report



PLANNING OPPORTUNITIES

- While Business Combination Accounting is mandatory, Push Down Accounting is optional under ASU 2014-17 which is applicable when target is retains is separate corporate existence
- "The agencies note that the pushdown accounting election available under ASU 2014-17 can be used to produce a particular result in the Call Report that may not be reflective of the economic substance of the underlying business combination. Therefore, an institution's primary federal regulator reserves the right to require or prohibit the institution's use of pushdown accounting for Call Report purposes based on the regulator's evaluation of whether the election best reflects the facts and circumstances of the business combination."



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PLANNING OPPORTUNITIES

Other challenge: if the target is ever merged with another bank, the balance sheet must be adjusted to the balances they would have been had pushdown accounting been applied at the time of the original acquisition.

• Get appraisals, calculate amortization and accretion, don't apply... wait for securities portfolio to mature and discount to be fully accreted back into income / capital, adjust balance sheet, merge banks?

Push down accounting only applicable when an acquirer "gains control" of the target

- Just because someone loses control does not mean someone gains control
 - Transaction with no BHC, just individual acquirers, none of which have control pursuant to the GAAP definition (widely held), push down accounting not applicable and can be avoided completely without regulatory risk of it being forced
 - Inability to utilize BHC as acquirer does limit ability to utilize debt in the transaction



POTENTIAL NON-TRADITIONAL BUYER ADVANTAGE

Often time, non-traditional acquirers purchased charters with plans to significantly grow the
bank. To gain regulatory approval to purchase, typically must provide sufficient capital initially
to fund anticipated growth. Since this excess capital is required anyways, there is often sufficient
capital to backfill shortfall created by bond loss, and theoretical cost of doing so is \$0 since
they'd be carrying and not immediately using that capital anyway.



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CECL IMPACT AND PENDING CHANGES

CECL IN THE ACQUISITION ACCOUNTING PROCESS

In the acquisition accounting process, the seller's ACL is eliminated, and a new ACL is required to be established

- ✓ Since the implementation of CECL, this process has included that ACL be fully established on Day 1 through an expense to the provision
 - ✓ This is in addition to the FMV discount typically recorded on the loan portfolio, which inherently includes a discount factor related to credit quality
 - ✓ This resulted in a "double count" of the impact of credit on the value of the loan portfolio
- ✓ Many potential acquirers are unaware of the need to record an expense on Day 1 sufficient to fully fund the ACL, which can be both a significant dollar amount impact earnings, and a significant reduction in regulatory capital
 - ✓ The combination of unrealized bond losses and CECL impact is often the reason that acquirers don't have sufficient capital to complete a transaction



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THE END OF THE CECL DOUBLE COUNT?



While commentators have complained about this "double count" since before the implementation of CECL, FASB was originally opposed to changes, and then became open to changes but has been slow to react



After multiple years, on April 30, 2025, FASB directed staff to draft a final Accounting Standards Update to be voted on to change this treatment — expected Q3 2025



"The Board decided that an entity should calculate the initial amortized cost basis for seasoned loan receivables, excluding credit cards, as the purchase price plus the initial allowance for credit losses" (gross up method)



"The Board decided that an entity should use the interest method to recognize as interest income the noncredit discount or premium on seasoned loan receivables, excluding credit cards"



"Applied prospectively for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods. Early adoption is permitted for any annual or interim reporting period for which the entity's financial statements have not yet been issued."





FEDERAL RESERVE BANK SMALL BANK HOLDING COMPANY POLICY STATEMENT CONSIDERATIONS

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TRANSACTION FINANCING

Many if not most thinly-traded, family-owned, and privately held transactions utilize cash as the primary form of consideration.

As a result, many transactions involve bank stock loan debt incurred by the acquiring bank holding company to finance a portion of the transaction.

When exploring taking on holding company debt, it is important to understand the rules under the Federal Reserve Bank's Small Bank Holding Company Policy Statement (for BHCs with consolidated assets under \$3 billion).



SMALL BANK HOLDING COMPANY ACT



Key Considerations for Transaction Financing

- 75% debt limitation Debt financing shall not exceed 75% of the purchase price
- 25 year debt retirement all debts incurred shall be retired within 25 years
 - "The Board also expects that these bank holding companies reach a debt-to-equity ratio of .30:1 or less within 12 years of the incurrence of the debt."
- **Debt-to-Equity Ratio** A small bank holding company whose debt-to-equity ratio is greater than 1.0:1 is not expected to pay corporate dividends until such time as it reduces its debt-to-equity ratio to 1.0:1 or less
 - Note that this is an ongoing requirement, not just at the time of application approval



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DEBT TO EQUITY RATIO

Key Ongoing Considerations



Measured/calculated on a GAAP basis, and not regulatory capital basis.



Unrealized bond losses recorded in Accumulated Other Comprehensive Income do not reduce regulatory capital for those who opted out, it does reduce equity for purposes of this ratio.



For would-be buyers with unrealized bond losses, this reduces their borrowing capacity available to finance a transaction.



For acquirers who took on BHC debt prior to the increase in interest rates, they may have found themselves in excess of the 1.0:1 ratio and subject to dividend restrictions resulting from nothing but the increase in the unrealized bond losses.





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TRANSACTION STRUCTURING



Legal structure and tax elections continue to be important tools for driving for driving corporate governance process, regulatory approval authority, and tax outcomes in a transaction



Typically start by determining the party's intent as to whether a transaction should be treated as a stock or an asset transaction for tax purposes

Sellers typically prefer stock treatment to avoid double taxation and utilize preferential capital gains rates

Buyers typically prefer asset treatment to receive step up in tax basis and gain deductibility of premium paid



TAXATION

As the parties to a transaction will typically have conflicting desires and benefits as it relates to tax treatment, it is advisable to have this point negotiated early in the process, ideally being stipulated and agreed to in the Letter of Intent

- As the deductibility or non-deductibility of the premium will impact a buyer's return on investment, the answer here may also impact their purchase price
 - i.e. they may offer a lower multiple or purchase price on a tax stock transaction as compared to a tax asset transaction

The "detrimental" impact to a seller varies significantly on whether they are taxed as an S corporation or a C corporation

- C corporations, being subject to double taxation, are much more harmed by a tax asset sale
- For S corporations, due to their passthrough status, it is merely a means of income character (i.e. ordinary vs. capital)



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TAXATION, CONT.

For C corporation sellers, the stock vs. asset determination is largely a "zero sum" game

- In other words, every dollar of tax a buyer would save as the result of asset treatment, the seller would pay in additional tax, and vice versa
- This can make it difficult to find an agreeable consideration structure for C corporation sellers to agree to asset sale treatment, and as a result stock sale treatment is more common than in S corporation sellers



TAXATION, CONT. When acquiring an S Corporation Bank For S corporation sellers, because it is a Holding Company, it is possible to matter of income characterization as induce the seller into an asset deal by opposed to how many times the offering a "true up" payment consideration will be taxed, there is This leaves the seller in the same position they would have been in had they sold their stock more opportunity for "common ground" as the benefit to the buyer of an asset The buyer gets the advantage of premium purchase is typically greater than the deductibility at a relatively low cost detriment to the seller EideBailly.

DEAL STRUCTURE — REGULATORY IMPACTS

>>>

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Once the definitive agreement has been executed, the buyer will begin the process of obtaining regulatory approval to close the transaction.

The deal structure drives the applicable regulator overseeing regulatory approval

Regulatory Approval



If a Bank Holding Company is the acquirer, the Federal Reserve, and potentially the applicable state, must approve the transaction



If the two banks will be merging, either target into acquirer or acquirer into target, the acquirer's primary federal regulator must approve the transaction



If individual persons will be acquiring the target bank, the target's primary federal regulator must approve the transaction



KEY TAKEAWAYS

Deal activity constrained but not absent

Unrealized bond losses and CECL = key hurdles

Accounting and structural planning can have significant impacts to both parties

Market poised for rebound with interest rate cuts



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QUESTIONS?

THANK YOU!

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CPAs & BUSINESS ADVISORS

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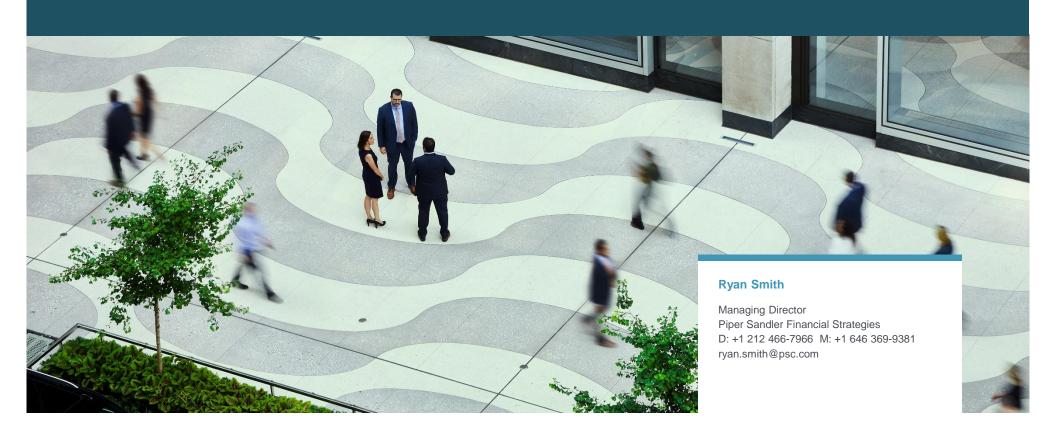


Reacquiring Balance Sheets in a Post Pandemic Environment

Ryan Smith | Piper Sandler

Reacquiring Balance Sheets in a Post Pandemic Environment

May 2025 | Financial Institutions Conference - Iowa Society of CPAs



Overview

The industry is evolving – strategy needs to evolve too

The most expensive words in banking: "that's the way we've always done it"

Be on the lookout:

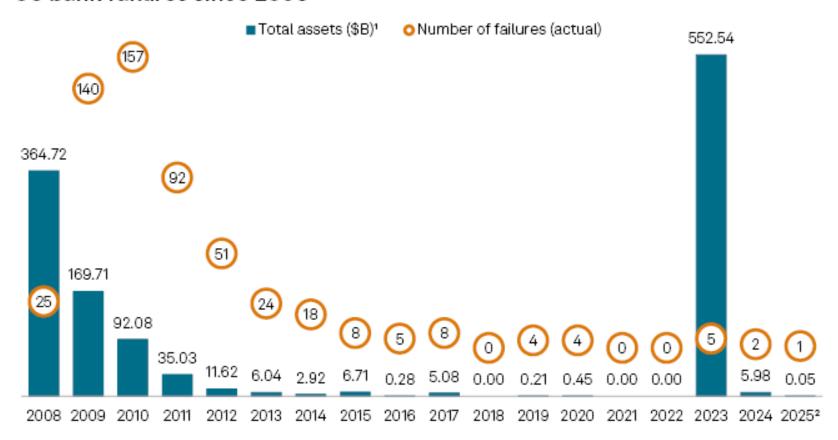


Key Changes

- What did we miss about SVB, Signature, and First Republic?
 - Uninsured Deposits can we fix this?
 - HTM beware
 - Hedging
- Concentration exposure comes in many forms
 - CRE
 - Consumer
 - Not enough concentration...
 - Deposits time to underwrite
 - Funding think variety
- Liquidity and funding
 - Sources, Measures, Regulation

Magnitude

US bank failures since 2008



Data compiled Jan. 20, 2025.

Analysis limited to failures by US commercial banks, savings banks, and savings and loan associations between Jan. 1, 2008, and Jan. 20, 2025.

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¹ Total assets based on most recent regulatory filings before failure.

² Year to date through Jan. 20, 2025.

The Current Environment

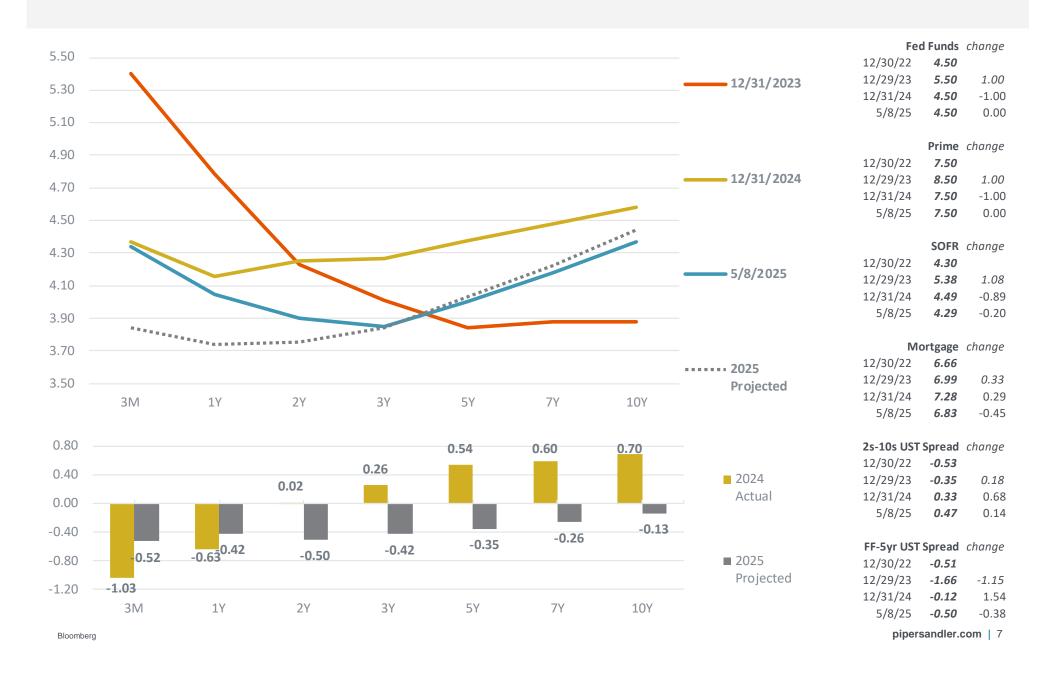
Comparison of 1Q2025 to 4Q2024 for Reporting Banks

Summary Median Comparison for the 189 Banks that have Reported 1Q2025 Financial Data

Balance Sheet Information			Key Profitability Items				
	Q4 2024	Q1 2025	$\mathbf{QoQ}\ \Delta$ (bps)		Q4 2024	Q1 2025	QoQ ∆ (bps)
Median				Median			
QoQ Δ Deposits (%)	0.7	1.2	43	Yield on Loans (%)	6.12	6.02	(10)
QoQ Δ Loans (%)	0.8	0.4	(26)	Cost of Total Deposits (%)	2.25	2.07	(18)
Loans / Deposits (%)	87	87	(55)	Net Interest Margin (%)	3.30	3.33	1
ACL / Loans (%)	1.21	1.23	0	Core ROATCE (%)	13.4	12.8	(47)
NCOs / Avg. Loans (%)	0.15	0.14	(1)	Core ROAA (%)	1.13	1.05	(3)
TCE / TA (%)	8.6	8.8	20	Efficiency Ratio (%)	59.1	59.0	7
AOCI / TCE ex. AOCI (%)	(8.5)	(7.2)	146	QoQ Δ Core EPS (%)	3.3	(3.1)	(1005)

Note: All data reflects medians for the respective categories, including the QoQ bps change figures.

Historical Treasury Yield Curve Changes and Future Expectations



Changing Regulation

Newly Proposed Brokered Deposit Rules

The FDIC is proposing changes to the definition of a brokered deposit

- The proposed rule was released July 30, 2024 and will be open 60 days for comments
- Unwinds much of the 2020 final rule brought by then-FDIC characteristics.
- Removes the affiliated party exception, eliminating the x to be apposit placement arrangement
- Amends the primary purpose exception we can be all can send deposits to banks
 - Must stay under 10% place and length length (down from 25% of AUM) to be non-brokered
 - o Only insured the contact for the exception vs. the broker dealer or asset manager
- Defines how a broke "a gaged in the business of" placing deposits, which can include decisions on allocations, receiving fees, placing or facilitating deposit placements, etc.

The FDIC's goals

- Address the underreporting of brokered deposits by banks
- Reduce reliance on "hot money" to grow too guickly

Possible impact

- Would define more fin-tech, asset managers, or non-bank deposit gatherers as deposit brokers
- May reduce access to funding sources and may deter tech-forward deposit solutions
- More deposits defined as brokered = higher FDIC insurance premiums

Changing Funding Sources

Regulators are focused on overreliance on single funding sources

- FHLB, FHLB is not a variety
- Testing pipes and plumbing

Federal Housing Finance Agency is changing the rules for the FHLB

- Magnitude of impact not clear yet, but the changes will create more barriers to borrow
- Community impact programs getting more money and focus
- May no longer receive focus in current administration

If you're replacing funding or seeking funding...

- Hedged deposit product
- Optionality in brokered deposits
- Fin Tech deposit gatherers
- One-way receive
- Insure your uninsured

Fiscal Year 2025 Bank Supervision Operating Plan – OCC

The plan outlines the OCC's supervision priorities and objectives for the year

Financial

- Credit
- Allowance for credit losses
- Asset and liability management
- Capital
- Climate-related financial risks for banks with over \$100 billion in total consolidated assets

Operational

- Cybersecurity
- Enterprise change management
- Operations
- Third-party risks
- Payments

Compliance

- Bank Secrecy Act/anti-money laundering/countering the financing of terrorism and Office of Foreign Assets Control
- Consumer compliance
- Community Reinvestment Act
- Fair lending

Summary – FDIC Risk Review – May 13, 2025

- The "2025 Risk Review" by the FDIC assesses the economic and market risks affecting the banking industry, particularly community banks, in 2024
- The banking industry was resilient in 2024 despite an inverted yield curve and higher interest rates
- The industry's net income in 2024 was well above pre-pandemic levels; asset quality metrics remained favorable; liquidity was stable; and capital levels increased
- Elevated unrealized losses continued and asset quality weaknesses remained in certain loan portfolios
 - Greater asset quality deterioration in certain commercial real estate (CRE) and consumer loan portfolios
 - CRE loan quality and collateral values may continue to be a source of risk for banks
 - Household finances were solid in 2024 but started to show signs of weakening
- Community banks generally fared better than the rest of the industry in deposit growth and loan growth rates but reported higher expenses, which reduced their income
 - Banks reduced reliance on wholesale funds

Strategy



Are You Exploring What's Getting Done?

Liquidity & Earnings

- Loss trades (Balance Sheet Restructuring)
- Loan sales and purchases
 - Prepare for opportunities. How long do decisions take?
- **BOLI** Restructuring
- Cash alternatives: 1M SOFR+75bps with monthly liquidity and 0% RW

Rates

- Hedging where are you exposed?
 - Chase the demand, solve rate concentrations with hedging
- Actively reducing rate risk in M&A this is a MUST in M&A discussions

Capital

- Leverage...Deleverage be the right size
- Sub Debt: get ready to issue, get ready to purchase
- Sale leaseback
- More credit? Less credit?



Balance Sheet Repositioning Review

Bank balance sheets have changed...management strategies need to adapt

- This rate cycle has created upside-down balance sheets
- Non-core, inefficient leverage lives on most balance sheets
- Bank NIMs and other profitability ratios are suffering
- Potential credit issues weighing on investors' minds; largely, bankers have yet to feel credit pain
- 2025 / 2026 budgets and dividend payouts are in the spotlight
- Management teams need to ask if there is another solution for poor performance besides 'patience"

The motivation behind. and perception of, BSRs has changed

- Most repositionings have been well received in the market
- BSRs come in many forms; AFS, HTM, wholesale funding, 1-4 family, performing CRE, distressed loans, etc.
- BSRs can lessen profitability pain while providing improved flexibility

How to Conceptualize

- Balance sheet mix changes should drive loss strategy
- Profile should be evaluated **EVERY** quarter
- Work backwards and address future balance sheet exposures
- It's always "budget season"
- Hedges allow the institution to adjust interest rate risk with a non-cash, non-capital intensive tool after the repositioning optimizes earnings, liquidity and capital

"Reacquiring" the Balance **Sheet**

- Concept of a "loss"... realized (now) vs. unrealized (later?)
- What assets are we selling and why? Opportunity to de-risk credit, duration?
- Use of proceeds: asset mix shift (loan growth, or at-market bond yields) or delever
- Sensitivity to Tangible Book Value, regulatory capital, and distribution plans
- Earn-back and breakeven discussion
- Opportunity to position the balance sheet for current/ future exposure/opportunities

Balance Sheet Restructurings



Select Securities Re-Positioning Transactions Representing >10% of Securities Portfolio

		Total	Market		Securities	% of	Pre-Tax	%	1-Day Price Change
Company Name	Ticker	Assets (\$M)	Cap (\$M)	Date	Sold (\$M)	Portfolio	Loss (\$M)	Loss	vs Nasdaq (%)
Associated Banc-Corp	ASB	43,023	4,039	12/4/24	1,300	16.0%	337	25.92%	0.21%
Washington Trust Bancorp, Inc.	WASH	7,142	623	12/20/24	409	42.0%	93.3	22.81%	0.50%
Pacific Premier Bancorp, Inc.	PPBI	17,904	2,488	11/20/23	1,270	35.0%	243	19.13%	3.56%
Eastern Bankshares, Inc.	EBC	25,558	3,660	4/27/23	1,900	26.2%	332.2	17.48%	2.27%
Heartland Financial USA, Inc.	HTLF	17,290	2,871	11/15/23	806	12.4%	129	16.00%	0.68%
Capitol Federal Financial, Inc.	CFFN	9,538	741	10/25/23	1,300	91.2%	206	15.85%	5.84%
Texas Capital Bancshares, Inc.	TCBI	30,732	3,598	9/6/24	1,240	28.0%	179.6	14.48%	6.06%
Alerus Financial Corporation	ALRS	5,265	511	12/19/23	172	18.0%	24.7	14.34%	1.12%
MidWestOne Financial Group, Inc.	MOFG	6,236	665	9/26/24	1,000	55.0%	140.4	14.04%	-1.06%
KeyCorp	KEY	187,168	19,535	9/9/24	7,000	15.0%	918	13.11%	-1.16%
Amerant Bancorp Inc.	AMTB	9,898	975	9/25/24	551	36.0%	70.8	12.85%	-2.44%
FB Financial Corporation	FBK	13,157	2,462	10/15/24	319	21.0%	40.2	12.62%	-0.41%
Horizon Bancorp, Inc.	HBNC	7,801	742	10/23/24	325	13.0%	39	12.00%	6.50%
Tompkins Financial Corporation	TMP	8,006	974	9/29/23	430	23.9%	47.5	11.06%	2.64%
Dime Community Bancshares, Inc.	DCOM	14,353	1,343	12/12/24	397	27.0%	43	10.83%	-0.25%
Arrow Financial Corporation	AROW	4,411	466	12/4/23	100	15.0%	9.2	9.20%	6.31%
Horizon Bancorp, Inc.	HBNC	7,801	742	12/12/23	383	13.5%	31.6	8.26%	9.77%
Banc of California, Inc.	BANC	33,543	2,706	10/22/24	742	16.0%	60	8.09%	3.11%
Nicolet Bankshares, Inc.	NIC	8,797	1,696	4/18/23	500	29.3%	38	7.60%	-6.66%
Community Financial System, Inc.	CBU	16,386	3,441	2/1/23	786	14.8%	52.3	6.65%	4.15%
Hancock Whitney Corporation	HWC	35,082	5,133	12/11/23	1,040	13.0%	65.4	6.29%	-0.65%
MidWestOne Financial Group, Inc.	MOFG	6,236	665	4/27/23	231	11.1%	13.2	5.71%	0.45%
Peapack-Gladstone Financial Corporation	PGC	7,011	571	4/29/22	125	16.9%	6.6	5.28%	2.95%
National Bank Holdings Corporation	NBHC	9,808	1,633	12/18/24	130	10.4%	6.7	5.15%	-0.48%
PacWest Bancorp (now Banc of California)	PACW*	NA	NA	1/26/23	1,000	14.1%	49	4.90%	2.87%
Columbia Financial, Inc.	CLBK	10,475	1.649	7/26/23	227	20.3%	10.8	4.76%	-10.29%
SmartFinancial, Inc.	SMBK	5,276	604	10/23/23	160	19.2%	6.8	4.26%	-0.30%
Arrow Financial Corporation	AROW	4,411	466	12/26/24	75	13.8%	3	4.00%	0.19%
Origin Bancorp, Inc.	OBK	9,679	1,213	10/25/23	182	12.3%	7.2	3.96%	3.02%
Renasant Corporation	RNST	18,035	2,381	7/25/23	584	26.3%	22.4	3.83%	2.61%
Cadence Bank	CADE	47,019	6,449	4/24/23	1,500	13.8%	51.3	3.42%	2.16%
Enterprise Bancorp, Inc.	EBTC	4,828	522	7/25/23	85	11.9%	2.4	2.83%	-2.67%
Park National Corporation	PRK	9,805	2,769	11/15/23	291	17.0%	7.9	2.71%	-0.64%
Atlantic Union Bankshares Corporation	AUB	24,585	3,374	4/25/23	506	14.6%	13.4	2.65%	-11.45%
Bank Average	7.00	20,190	2,476	1,20,20	796	22.4%	97.1	9.77%	0.84%
Bank Median		9,808	1,633		465	16.5%	41.6	8.17%	0.59%

22.4%	97.1	9.77%	0.84%
16.5%	41.6	8.17%	0.59%



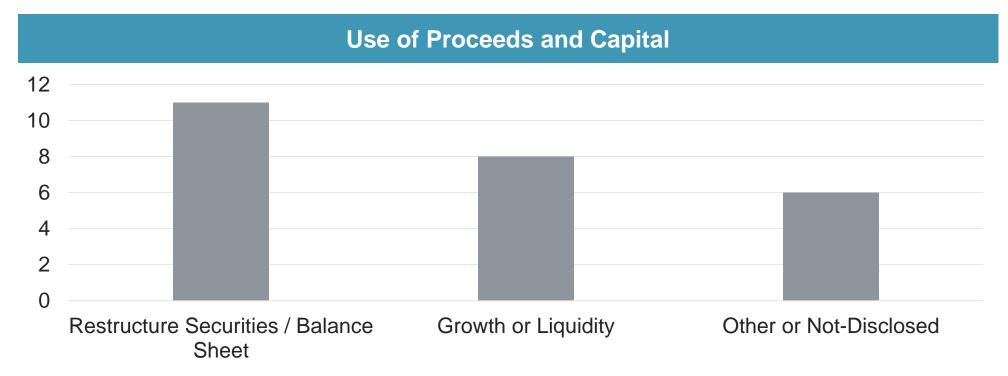
Restructure the Portfolio - Take Your Loss; Take Your Gain

I want to mitigate my loss...which gain is right for you?

- Sale of Visa B Class Shares
- Sell Mortgage Servicing Rights
- Sell non-bank business lines
- Sell equities/unwind swaps (limited)
- Sale Leaseback
- No loss trades make sense?
 - Restructure without a loss BOLI 1035 exchange

Publicly Announced Sale Leaseback Transactions 2023-2025

	Selling Companies	Branches Sold	Sold as % of total branches (Median)	Sale Price (\$B)	% Gain vs. Book Value (Median)
Total	25	378	31%	\$1.1B	156%





Sale Leaseback and Bond Restructuring Example

Sale Leaseback and Bond Restructuring (\$M)			
Book Value of Branches	\$15.0		
Market Prices of Branches	\$25.5		
Gain	70.0%		
Gain (\$)	\$10.5		
Market Val. Securities Sold Realized Loss (%)	\$87.5 12.0%		
Realized Loss on Securities	\$10.5		

Pre-Tax Go-Forward Income Impact (\$M)			
Annual Lease	(\$2.3)		
Annual Depreciation Expense	\$0.4		
Annual Income: Bond Restruc.	\$2.6		
Annual Income: Cash Deploy	\$1.4		
Pre-Tax Income Impact	+\$2.1		





Longer Funding, Longer Assets	
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Leverage Strategies

Medium Funding,

Short Funding, Short Assets

			Medium <i>i</i>	Assets	Short Assets
Funding: Cost: 4.25% 5 Year Beat-The-Spread	Funding: Cost: 4.51% 5 Year FHLB Advance	Funding: Cost: 4.35% 5 Year CD	Funding: Cost: 4.48% 4 Year FHLB Advance	Funding: Cost: 4.42% 3 Year FHLB Advance	Funding: Cost: 4.45% Rolling 3 Month FHLB Advance
Asset: Yield: 5.52% 5 Year GNMA Multi-Fam	Asset: Yield: 5.45% 5 Year Agency CMO	Asset: Yield: 5.00% 15 Year 5.0 Agency MBS	Asset: Yield: 6.84% 4 Year Loan Participation	Asset: Yield: 5.09% 3 Year Agency CMO	Asset: Yield: 5.56% Floating w/7% Cap Agency CMO
Spread: 1.27%	Spread: 0.94%	Spread: 0.65%	Spread: 2.36%	Spread: 0.67%	Spread: 1.11%

Pricing as of January 23, 2025



Managing Credit: Credit Default Swap Transaction

Pre-Transaction

Post-Transaction

Reduction in Required Capital

Sample 1
Off Balance
Sheet
Securitization

\$1.0BN 1st Lien RESI Loan Portfolio

50% RW * 10% CET1 = \$50M Capital Required

\$950M Class A Note (5% Attachment)

20% RW * 10% CET1 = \$19M Capital Required

5% Subordinated Tranche 0%-20% RWA*

\$31M

Sample 2 CLN/CDS On Balance Sheet \$1.0BN Auto Loan Portfolio

100% RW * 10% CET1 = \$100M Capital Required \$875M Senior Risk Position (12.5% Attachment)

20% RW * 10% CET1 = \$17.5M Capital Required

12.5% Cash Collateralized 0%-20% RWA* \$82.5M

Key Takeaways

Key Takeaways

Liquidity, funding, and regulation have changed: strategy needs a check-up

Concentration risk comes in many forms: too much, too little, both sides of the balance sheet

The environment has evolved – weigh the risk of choosing inaction

Appendix

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Ryan Smith is a managing director at Piper Sandler in the financial services group. In this role, he advises financial institutions on capital management, budgeting, funding, fixed income and investments, debt capital markets, regulation and accounting, derivatives and asset/liability management. Smith also works closely with the firm's investment banking group to identify and develop strategic opportunities related to mergers and acquisitions, capital issuance or other transactions.

Prior to joining Piper Sandler in 2019, he was the head of financial institution analytics, and formerly head of bank strategies at Stifel Financial, where he worked in a similar capacity and advised financial institutions across the country. Smith started his career at Keefe, Bruyette, and Woods (a full service investment bank that was acquired by Stifel), where he worked on a team that advised on dozens of completed M&A deals, IPOs, equity offerings and other transactions.

Smith holds a bachelor's degree in political science from Amherst College. He serves as a board member and Treasurer for the non-profit Rooftop Films, Inc. and is the investment advisor to the non-profit, Educate!.

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Risk Considerations of Hedging with Derivatives

While derivative transactions have many benefits, they also require the Bank's Management and Board of Directors to carefully review the associated risks and considerations. Some of the risk factors management and the board should consider include:

Market risk

• Risk that market moves in the opposite direction of the hedge leading to "buyer's remorse" and a net cost to the hedge over its life

Counterparty risk

- Risk that counterparty defaults and derivative's value must be written off
- Risk that counterparty margin posted does not cover market value
- Chance of counterparty default may put hedge accounting treatment in jeopardy

Accounting risk

- If hedge accounting is jeopardized through some misalignment between the hedge and the hedged item, the derivative market value of the hedge may be forced to flow through earnings and regulatory capital
- Regulatory risk
- Policies and procedures for monitoring initial and ongoing risk most scrutinized
- Minimal risk when derivative strategy is used for hedging and not speculative use

Liquidity Risk

 Management must evaluate the effect an interest rate derivative strategy may have on liquidity calculations when collateral calls and periodic hedge payments are considered