



WHAT ARE YOU DRINKING?



Odds are pretty good that you've never heard of, let alone tried, Pemberton's French Wine Coca. This was an extremely popular beverage of the mid-1800s. We're willing to bet, however, that you have tried the beverage it evolved into. Made from a combination of

the South American coca plant, the kola nut and Bordeaux wine, an Atlanta-based pharmacist named John Pemberton created his coca wine. He eventually replaced wine with carbonated water and renamed his drink Coca-Cola. To promote its drink, in 1888 Coca-Cola issued what is believed to be the first ever coupon, which entitled the bearer to a free glass. Aided by one brilliant advertising campaign after another, Coca-Cola has since grown into a worldwide brand and the world's largest beverage producer.

Major changes that government intervention brought about for Coca-Cola made us think about the potential impact that could result from the US Department of Education's recent proposal around for-profit colleges.

As part of this effort, the Education Department launched an enforcement unit that will focus on surfacing potential misconduct among such colleges, examine legal claims related to federal loan borrowers and ensure all schools disclose campus crime statistics and security information. This first part of the regulatory puzzle sets the tone for the remaining approach around lending.

Here, the Department of Education announced a student loan forgiveness program for borrowers who believe they have been defrauded by their colleges. It leverages the current ability for student loans to be discharged if borrowers attending a college are there when it closes or if they withdraw 120 days after the college closes.

Another area of focus relates to arbitration clauses in enrollment agreements. Many for-profit colleges require new students to sign language preventing them from joining in class action suits against the school and that also require that they agree to settle grievances through arbitration. The Department of Education believes that the inclusion of such language within enrollment documents is unfair and prohibits such institutions from being held accountable for any wrongdoing or negligence on their part, so it is changing that too.

All of this noise surfaced around some for-profit colleges promising things they could not deliver (like good paying jobs). Following the 2015 collapse of Corinthian Colleges Inc., a chain of for-profit institutions that offered higher education degrees in specialties including business, healthcare and information technology, students who borrowed money to attend these schools have been pushing to have their loan forgiven. Spurred by this situation, the Department of Education is working to clarify the standards regarding when and under what types of scenarios borrowers of federal student loans should have their debt erased.

No one knows where all of this may end, but it is important for banks to monitor things as any loan forgiveness of any type will ultimately increase pricing and risk to the bank.

While the Department of Education's proposals deal exclusively with federal student aid at the moment; the effect of any rules put in place will certainly have a ripple effect. Further, as the courts get involved hearing cases and deciding things, a shift in how

banks lend and what protections they may or may not have across multiple types of loans could follow. In the meantime, continue to adapt and change as you enjoy your can of Coca-Cola today or wine this weekend and ponder all of this.

ECONOMY & RATES:

Yesterday: Yields dropped 4bp following mixed economic data.

BANK NEWS:

• **M&A Activity:** 1) Three bank holding company QCR Holdings (\$2.6B, IL) will acquire Community State Bank (\$595mm, IA) for \$80mm in cash or about 1.24x tangible book. 2) mBank (\$729mm, MI) will acquire The First National Bank of Niagara (\$68mm, WI) for about \$7.3mm in cash. 3) RCB Bank (\$2.5B, OK) will acquire Cornerbank (\$271mm, KS) for an undisclosed sum.

• **M&A Activity 2:** S&P Global Market Intelligence reports that through May 15, there have been almost 8% fewer bank M&A deal announcements vs. the same point last year (95 vs. 103). Meanwhile, S&P also reports the median price-to-tangible book ratio this year has been 130.20% vs. 136.11% as of the same point last year (about a 4% decline).

• **Fraud Attack:** The largest bank in Africa, Standard Bank Group Ltd., reports it has lost close to \$19mm as a result of a sophisticated attack carried out in Japan. Thieves reportedly forged 1,600 cards and withdrew money from 1,400 ATM machines all over Japan within a short 2 hour period. By the way, the distance from Africa to Japan is about 8,751 miles.

• **Higher Costs:** Bankers wondering about the cost of employee healthcare for 2017 will be interested to know that the Wall Street Journal reports large health insurance players in some states have proposed raising rates by 20% or more. These providers say they have been hit with losses tied to the first years of Obamacare and need the increases to address changes in expected claims costs tied to rising cost of medical services.

• **Debt Load:** The Fed's latest report on household debt and credit finds US households owed \$12.25T at the end of Q1, up 1.1% from the end of 2015. Overall, housing debt represents about 72% of the total, while non-housing debt is the remaining 28%. By category: mortgages (70%), student loans (11%), auto (9%), credit cards (6%) and home equity lines of credit (4%).


PCBB UPDATES:

Next Generation Rate Risk Management

In the coming quarters interest rates are likely to rise. If your bank wants help understanding risk and opportunity if that happens, email us or learn more by visiting our [website](#) today.

Tsy Yields		MTD Chg	YTD Chg	LIBOR Sw ap		Expected FF	
3M	0.28	+0.08	+0.12	1M	0.45	30-Jun	0.40
6M	0.45	+0.07	-0.03	3M	0.67	30-Sep	0.54
1Y	0.65	+0.10	+0.05	6M	0.98	30-Dec	0.62
2Y	0.87	+0.09	-0.18	1Y	1.32	31-Mar	0.69
5Y	1.35	+0.05	-0.41	2Y	1.01	30-Jun	0.76
10Y	1.83	-0.01	-0.44	5Y	1.32	29-Sep	0.82
30Y	2.64	-0.04	-0.37	10Y	1.69	29-Dec	0.89
FF Market		FF Target	Fed Disc	Prime	Unemployment	Oil	
0.37		0.50	1.00	3.50	5.00	49.48	

2016 Community Bankers' Road Tour GPS to Success: Growth. Performance. Strategy.



Kansas City— July 26-27
[More Info](#)

The Community Bankers' Road Tour focuses on critical topics, provides tactical solutions to overcome them and the opportunity to share and gain valuable insight amongst your peers.

Select “More Info” above and register today for this not-to-be-missed event!

July 26: Complimentary Dinner **5:00pm - 9:00pm**

Network over dinner with your banking peers at Lidia's Restaurant, complimentary, before we head into a full day of sessions.

July 27: Educational Sessions **8:00am - 4:00pm**

At-a-glance agenda

Key Industry Trends for 2016 & 2017

Top 10 Accounting Challenges

Understanding Bank Risk Management

Law Enforcement Update on Crimes/Trends

Major Pillars of Community Bank Lending

Improving Performance and Profitability

Lending in a Complex Rate Environment

Top Regulatory Hot Topics and Why

Earn CPE Credits

Each event qualifies for up to 6 CPE credits

Multiple Attendee Discount

Save \$100 on every additional attendee you send from your institution.

First attendee fee = \$350

Additional attendees = \$250

Registration confirmation will contain details to forward to fellow employees with discount info.

Event Attire

Entire event is business casual

Select the image above and register today for this not-to-be-missed event!