



BankNotes

First Quarter News

Engaging Your Team

Survey your team on a regular basis to find out the level of engagement.

Lengthy Recovery Likely to Continue

The U.S. economic recovery is now 103 months old; less than 18 months away from our record expansion of 1991 to 2001. This historical moment beckons us to think about the causes and results of recessions.

The Salvation Army of Central Ohio Christmas Cheer

The commercial banking team volunteered their afternoon to help serve those in need for the holidays.

Housing Market is Still Hot in Central Ohio

Perfect time to sell – use the winter months to your advantage.



**First Merchants
Bank**

THE STRENGTH OF BIG THE SERVICE OF SMALL



Engaging Your Team

By Jennifer Griffith

Cold mornings like these remind me that we need to light our own fire before doing anything else. We all know someone that might prefer to hunker down and hibernate during these long winter months, but that's not what engaged employees choose.

In a 2015 edition of BankNotes, I introduced our approach to thinking about employee engagement at First Merchants Bank. We survey our team on a regular basis to uncover the connection between job satisfaction and job contribution. We're looking for the apex where personal and organizational interests align. Engagement is frequently described as creating more "great days at work," and who doesn't want that?

Since anyone can step up and light their fire each morning, we measure the engagement of the individuals,



managers and executives. It's everyone's role to create an engaged work force. Each individual is accountable to communicate and deliver with great enthusiasm. Each manager is charged to connect strategy and engagement while coaching employees towards higher levels of performance. The executive suite establishes

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the right environment to fuel engagement and facilitate activities to promote engagement throughout the organization.

Across the globe there has been a huge growing swell of organizations benefitting from employee pulse surveys. Pulse surveys are typically shorter surveys delivered with higher frequency. They provide frequent and regular check ins on the pulse of your team. Research has shown us time and time again that engaged employees increase productivity, make customers happier, lower the risk of turnover and bring the passion that spurs innovation.



Companies such as Apple, Etsy, and Amazon are all using employee pulse surveys to measure engagement levels.

I encourage you to learn more and unlock the possibilities of what an engaged workforce can do together! 🏠

Jennifer Griffith is the Ohio Regional President of First Merchants Bank. If you have any questions, please feel free to contact Jennifer by calling 614.583.2050 or by emailing her jgriffith@firstmerchants.com.



Lengthy Recovery Likely to Continue

By Mike Hicks

The U.S. economic recovery is now 103 months old; less than 18 months away from our record expansion of 1991 to 2001. This historical moment beckons us to think about the causes and results of recessions.

Economic research points to two proximal causes for business cycles; real and nominal shocks to the economy. Real shocks are things like wars, natural disasters, oil embargoes and the like. These are “real” because they affect the actual production of goods and services. Nominal shocks are impacts to the monetary markets and are typically the result of misplaced policies. These are “nominal” because they affect financial markets, not those that typically produce goods or services. Obviously there are many nuances to these two definitions, much of it involving the role of policy in financial markets. Space prevents a full accounting of these arguments, but there’s plenty to consider in these two simplified examples.

The real shocks that lead to recessions are almost always the type that are newsworthy. A middle–eastern war that restricts oil supplies provides an easy example, but a pre–emptive strike on North Korean missile sites, Russian invasion of the Baltic States or a global pandemic could all precipitate a business cycle. I’d term this the good, the bad and the ugly scenario, for which there is little global respite. Given we always live with war and the rumors of war, real business cycle risk remains part of economic life.

Nominal shocks come from policies that, in hindsight, are often obvious, but in foresight may be very difficult to observe. In 1936, the Federal Reserve raised the minimal requirements for bank reserves. The goal was to reduce

the risk of bank default, but the result was a sharp recession from which the U.S. did not wholly recover until the start of World War II. Likewise, the easy credit of the early 2000s fueled a housing boom, combined with shockingly poor risk analysis by important parts of the financial services industry, which led to the Great Recession. Few foresaw either outcome.

Importantly, these nominal shocks should not actually cause a recession if businesses and workers allow prices and wages to adjust smoothly to changes in the money supply. When they do not, it is called wage and price



stickiness. This is how the “nominal” shock of contracted money supply or a financial bubble collapse gets transmitted to the real economy. So where does this leave us in early 2018?

At this point in the business cycle, we should be relieved to hear that there’s little evidence that the duration of a recovery is correlated with recession risk. But, we should also keep our eye on policy. Sustained periods of low interest rates may well generate increased investor interest in riskier assets, as risk tolerance increases. Note that this is a change in behavior, not just an effort to obtain higher returns for any level of risk, which is at the heart of an entrepreneurial economy.



Risk in this context really means more volatility, not necessarily worse assets. For example, Walmart is a sure bet for profits in the 3 to 4 percent range, which is where they've been since going public in 1969. This is a low risk,



low yield asset. A lengthy period of low interest rates may generate the flow of capital to riskier, higher yield investments. This would mean much more of the economy is concentrating on risk assets. Economists have another name for this: a financial bubble.

There are many folks suggesting we are in bubbles ranging from housing, cryptocurrency, stock, to tech. As it turns out, there is always talk of bubbles—just like rumors of wars. No one has done well predicting them, and we know this because if some individual or institutional investor could predict financial markets, it would only take a few weeks to own most of the world's financial assets. So, bubble forecasts may be less accurate than war forecasts.

With financial bubbles and wars outside the ability of forecasters to predict, the most likely prediction for 2018 is a period of slow, but steady economic growth. I expect GDP to hover at the low 2.0 to 2.5 percent growth rate, and unemployment to remain low across the nation. The Federal Reserve will raise interest rates, probably two times in 2018 and, absent some unpredictable shock,

we will move closer to the record expansion of 1991–2001 over the next year. 🏠

Michael J. Hicks, PhD, is the Director at the Center for Business and Economic Research at Ball State University. Dr. Hicks' views do not necessarily reflect the opinion of First Merchants Bank and First Merchants Corporation.



New Year's Resolutions

By Todd Fulton

When you hear the phrase, “New Year’s Resolutions,” you probably think about losing weight, quitting smoking and vowing to enjoy life to the fullest. These are all very common personal New Year’s resolutions, but resolutions are not confined to our personal lives. You can also create impactful resolutions for your business life as well. A resolution, after all, is a decision to do something differently to bring about positive change.

So, if you are ready to make some powerful changes in your business life, here are five possible resolutions you should consider setting this year.

1. Learn how to delegate and do more of it. If you have more work than you can handle and no time to focus on growing your business, it's time to stop wearing all of the hats in your business and start bringing in others to pick up the slack. Let someone else do some of the tasks for a change. Delegation is the key to a healthy work–life balance.



It is also the key to growing and empowering the most important asset of your business – your team. By not delegating, you are sending a message to your team that you do not trust them to be a valuable member of your business. You limit the impact they can have on your business success and reduce their level of engagement. You hired them because you felt they could provide value to your business. Now is the time to cash in on that investment.

2. Make business planning a weekly event. Planning is vital if you want a healthy, growing business. Business planning lets you take stock of what worked and what didn't work, and helps you set new directions or adjust old goals. Having an annual business or marketing plan is a great way to start. However, why do it just once a year or once a quarter? Set aside time each week to review, adjust, and look forward – or even better, make business planning a part of each day. Not only will this help you avoid costly mistakes and stay on track, but you'll feel more focused and relaxed. If you really want to get the most out of planning, involved others (see resolution #1).

3. Learn something new. What you choose may be directly related to your business or completely unrelated. Learning something new will add to your skills and add a new dimension of interest to your life. This is an important part of achieving a healthy work–life balance and increasing your business success. Many learning opportunities that seem to be completely unrelated to your business life, may be the most valuable. The knowledge and skills learned can help you view business issues and opportunities through a different set of lenses.

4. Give something back to your community. There are all kinds of worthy organizations that make a difference in

your community. Those that practice giving will typically tell you that they get back more than they give. So make one of your top New Year's resolutions to find a cause that matters to you and give what you can. Make this the year you serve on a committee, be a mentor, volunteer or make regular donations to the groups in your community that try to make where you live a better place.

This is yet another area where you can engage your team as a way to enhance their personal lives as well as increase their engagement to your business. Give them time and opportunities to serve the community as well.

5. Put time for you on your calendar for things that matter. It's so important to take the time to recharge and refresh yourself; a healthy work–life balance and your business's success demands time out. All work and no play is a recipe for mental and physical disaster. So if you have trouble freeing up time to do the things you enjoy, write time regularly into your schedule to meet with yourself and stick to that commitment. If you won't invest in yourself, who will?

Achieving a healthy work–life balance is like maintaining a good relationship; you have to keep working on it. But if you choose to instill some new habits throughout the year, you'll not only feel better, but have more energy to put into your business and make it your best year ever. 🏠

Todd Fulton is a Relationship Manager at First Merchants Bank. If you have any questions, please feel free to contact Todd directly by calling 614.583.2170 or by emailing him at tfulton@firstmerchants.com.



Supporting the Community

The Salvation Army of Central Ohio Christmas Cheer

On Monday, December 18, the commercial banking team volunteered their afternoon to help the Salvation Army of Central Ohio get organized for Christmas Cheer at the Ohio State Fairgrounds.

Christmas Cheer helps families in need prepare for the holidays by providing them with a Christmas meal and gifts for children. Donations from Angel Trees throughout Central Ohio are sent to the Ohio State Fairgrounds where volunteers then sort toys into gender and age groups.

Thank you to the commercial banking team for volunteering their time to support The Salvation Army! 🏠



From left to right: Becky Bond, Marina Smith, Bob Main, Evan Nicholson, Dan Apple, Tom Dunson, Martin Brady, Jacqueline Walls, Justin Baker, Tyler Brady, Quinn Brady, Scott McAnaul, Nathan Rish, Brittany Barchalk, Todd Fulton, and Mike Curran.

Lifecare Alliance Meals on Wheels and Animeals Program

On Wednesday, January 24, employees volunteered their time at Lifecare Alliance delivering Meals on Wheels and pet supplies to senior citizens in need.

During the month of January, all First Merchants Columbus banking center locations in Central Ohio collected pet supply donations for the Animeals program at Lifecare Alliance.

Thank you to Nick Perry, Aimee Gilliland, Angela McCauley and Alexandra Lehmenkuhler for participating in this community day! 🏠





New Year – New Tax Laws

By David Brechbuhl

It's 2018 and there are new tax laws that we need to plan for. I'd like to share some thoughts from a personal and retirement planning perspective:

Don't Give Uncle Sam a Free Loan. The changes to the Federal Income Tax rules mean predicting

your 2018 income tax liability will be much more difficult than in prior years. In some cases, but not all, your tax liability may very well be lower than it has been in the



past. Correctly determining the proper amount of withholding and potential estimated tax payments is more important than ever this year. Giving Uncle Sam a large interest-free loan is not a good financial plan. Your money is always better off growing in your investment portfolio, rather than sitting somewhere in Washington.

Be proactive this tax season. For many of us, getting our taxes done is a chore and not an opportunity. We gather our tax information and send it to our CPA or tax advisor and wait to be told the results. 2018 is a rare opportunity to take stock of where you are tax-wise and make some real adjustments. Unlike past years, tweaking your withholding or estimated payments and leaving everything else as it was is not a good tax strategy.

The new Tax Act will change what you pay in taxes and making smart decisions now can help produce the best possible financial results. This is definitely the year to take some extra time and review your income and expenses with your CPA or tax advisor.

Change to mortgage deductions. In the new tax plan, there is a decrease in mortgage interest deductibility. The cap on deductibility of interest is now at \$750,000 of loan principal, down from \$1,000,000 (existing loans to be grandfathered). In addition, interest on HELOCs is no longer deductible. Again, see your tax advisor to discuss positioning of debt for your individual situation.

From a retirement planning perspective, review your contributions. For the first time since 2015, the IRS announced higher elective deferral limits for group retirement plans. For 2018, the new limit increased to \$18,500. For those over the age of 50 or turning 50 this year, the limit is \$24,500. This does not include any employer contribution you may also receive. IRA limits did not change for 2018.

At First Merchants Private Wealth Advisors, we partner with individuals, families, and organizations to provide comprehensive solutions and personal service in pursuit of a secure financial future. We wish you a happy, healthy and prosperous 2018. 🏠

David Brechbuhl is the Director of Client Development for First Merchants Private Wealth Advisors. If you have any questions please feel free to contact David directly by calling 317.844.2399 or by emailing him at dbrechbuhl@firstmerchants.com.



504 SBA Loan Program

By Jeff Chadwell

Are you thinking of purchasing real estate, long-term assets, or expanding your business? Do traditional loan terms not fit your current cash flow goals? It could be time to look at other financing options. The 504 SBA loan program has some great terms and may be

the best option to grow your business. This government backed 504 loan program was introduced to help small business owners grow their vision. With favorable interest rates rolling into 2018, this could be the time to talk to your banker about a 504 loan.

The 504 loan program is made available through Certified Development Companies. A Certified Development Company (CDC) is a non-profit corporation that promotes economic development within its community through 504 loans. In Columbus, the CDC is called the Community Capital Development Company



(CCDC); however, there are 260 CDCs across the nation with a defined geographical focus that can assist small business owners.

The benefits to the 504 loan program include long-term

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financing, fixed rate options, and a lower down payment. The loan program includes 20 year (10 years for equipment), fully amortizing financing. Rates are fixed to allow the business owner to focus on running the business without worrying about market rate fluctuation. And while traditional loan terms require a 20 or 30 percent down payment, the 504 loan offers financing for up to 90 percent of the project cost.

504 loan funds can be used for the following:

- Purchase land
- Purchase existing buildings
- Purchase long-term machinery and equipment
- Purchase improvements
- Build new facilities

To be eligible for an SBA 504 loan, your business must be operated for profit and meet several size standards. Two of those size standards include: an average net income of \$5 million or less (after taxes) and a tangible net worth of no more than \$15 million.

At First Merchants Bank, we have partnered with CDCs on many deals, and look forward to helping you accomplish your long-term business goals. For additional information related to SBA 504 loans, please contact your Relationship Manager or the Columbus Certified Development Company. 🏠

Jeff Chadwell is a Relationship Manager at First Merchants Bank. If you have any questions please feel free to contact Jeff directly by calling 614.583.2181 or by emailing him at jchadwell@firstmerchants.com.



First Merchants Practice Finance

By Mark Engle

The First Merchants Practice Finance team has been expanding its geographic focus! Over the past 10+ years, we have had a specific focus on the dental, veterinary, and optometry markets throughout the Midwest. Our team has four individuals more

than 50 years of combined industry experience. These bankers work exclusively with doctors looking to purchase or expand their practice. It is now time to take our business into new markets, while continuing to build on our commitment within the Midwest.

We have started to expand to our targeted markets in the southeast United States including Charlotte, Atlanta and Nashville. Our team will assist doctors in these markets with practice financing needs and offer a remote banking model. Our knowledge of these healthcare industries allow us to offer competitive practice financing terms, and the evolution of Remote Deposit Capture allows doctors to make deposits from their offices on their schedule. Services like Merchant Services, residential home lending and business credit cards will also be offered in these markets.

This expansion of our Practice Finance business is a reflection of the portfolio of doctors that have trusted First Merchants with their financing and banking needs. Many of our clients were referred to us from their accountant, attorney, or consultant. First Merchants has an appetite to build our brand within these healthcare industries and enhance our product offerings to better serve these professionals.

While this geographic expansion is exciting, it is important that we have systems and people in place to serve our existing clients. Savannah Norris-Jenkins, Manager of Regional Deposit Operations, assists our clients with their deposit or account questions. Morgan Lewis, Associate Relationship Manager, helps clients with lending and credit needs, and Becky Bond, Commercial Administrator, supports our team with administrative concerns.

From a marketing perspective, we continue to look for opportunities to help doctors with practice acquisitions, expansions, or commercial real estate transactions at study clubs and tradeshow events. We look forward to new opportunities in 2018 that will help create brand awareness. Justin, Mike and Mark remain active in all the markets we serve. What opportunities does the new year hold for you, and how can we help your practice grow? 🏠



Practice Finance Team (from left to right): Justin Baker, Aimee Gililand, Mark Engle, Morgan Lewis and Mike Mantor

Mark Engle is the Manager of Practice Finance at First Merchants Bank. If you have any questions, please feel free to contact Mark directly by calling 513.794.7457 or by emailing him at mengle@firstmerchants.com.



Housing Market is Still Hot in Central Ohio

By Greg Valentino

The average sales price of a home is \$213,962, which is 7.6 percent higher than last year at this time. This is happening because the limited inventory is making houses appreciate significantly. We are in a seller's market. 90 percent of homes on the market are receiving multiple offers at a time. People who are making offers are often getting into bidding wars when trying to buy a house. These bidding wars drive the sales price up. There are not enough homes on the market to accommodate those who are looking to buy. Things have got to change.

In 2018, home sales are expected to slow down a bit. Most economists are predicting a larger inventory on the housing market. Since there will be a larger inventory, appreciation will slow.

While people do not usually look to purchase a home during the holidays or winter months, it can still be a good time to shop around for a house. During winter, you will not compete with buyers eager to move to a new school district before the school year begins. The dip in demand may drive down price, giving buyers more negotiating power. Finally, many customers find the winter months favorable for moving. The heavy lifting of furniture and home improvement projects may be easier to complete without the heat of the summer.

There were 2,377 homes sold last month in Central Ohio. This is 3.2 percent higher than last year at this time. The average house is sitting on the market for 36 days. This is about six days longer than in October of 2017.

First Merchants Bank is proud to have finished 2017 as the 4th purchase producer in Central Ohio. Realtors and customers enjoy partnering with us because of our speed,



flexibility and customer service. We originate loans such as conventional, FHA, construction and rehab. We are happy to add a new product in 2018, the 15/1 ARM. This is a rate that is fixed for 15 years, but is amortized over 30 years. If you have any questions about buying, selling or refinancing a home, please do not hesitate to contact one of our loan officers. 🏠

Greg Valentino is a Manager of Mortgage Sales at First Merchants Bank. If you have any questions, please feel free to contact Greg directly by calling 614.583.2148 or by emailing him at gvalentino@firstmerchants.com.



Prepare Your Business for Transition

By Tom Dunson

It is never too early to prepare your business for a transition. This would include a third-party sale, sale to key employees, a merger, an ESOP, or even acquisition of another company.

Ideally, preparing your business for transition 2–3 years in advance will allow you to capture a more accurate value. It will demonstrate that a clean, well-controlled financial reporting system is in place. This will allow you to make better choices when selling or obtaining financing for an acquisition.

Some items you may want to consider when preparing your business for a transition:

- Clean up questionable items on your balance sheet
- Document key management tools that may be industry advantages
- Document any technology advantages that create value
- Upgrade your financial reporting to reviewed or audited statements

Referencing the last bullet, these upgraded statements provide additional comfort and confidence to banks, investors, or potential buyers. They also provide an independent stamp of approval that the financial presentation of your business is in order. Look at the upgraded financial statements as an investment into what is likely your largest personal asset.

Be prepared in advance of a transition. Do not wait and start reacting when an opportunity presents itself. You will save yourself time, money, and heartburn, while being able to make better decisions. 🏠

Tom Dunson is a Relationship Manager at First Merchants Bank. If you have any questions, please feel free to contact Tom directly by calling 614.583.2032 or by emailing him at tdunson@firstmerchants.com.

Upcoming Events

Thursday, February 22

Learn over Lunch with Amy Franko
Topic: The Ambassador Sale: Creating Lifetime Value in the New Economy
Location: The PAST Foundation
Time: 11:30 a.m. – 1:00 p.m.

Thursday, April 12

Spring Seminar with Jason Barger
Location: The Grand Event Center
Time: 4:00 – 7:00 p.m.

Friday, April 27

Recycle–O–Rama
Location: 3650 Olentangy River Road – Parking Lot
Time: 11:00 a.m. – 2:00 p.m.

Register for any upcoming event with Brittany Barchalk by calling her at 614.583.2040 or by emailing her at bbarchalk@firstmerchants.com



First Merchants Bank

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BankNotes

Visit One of Our Convenient Locations

Clintonville: 3245 N. High Street – 614.408.0470

Graceland: 5090 N. High Street – 614.408.0480

Grandview: 1460 Grandview Avenue – 614.486.0700

Karl Road: 1616 E. Dublin–Granville Road – 614.408.0410

Olentangy: 3650 Olentangy River Road – 614.583.2200

Reed Road: 4621 Reed Road – 614.486.9600

Reynoldsburg: 6950 E. Main Street – 614.408.0375

Sawmill: 5811 Sawmill Road – 614.408.0274

Tremont Center: 2130 Tremont Center – 614.486.9000



Engaging our Future

2018 Commercial Summit at NCAA Headquarters in Indianapolis

The First Merchants commercial banking team held its annual Commercial Summit, “Engaging Our Future” in Indianapolis, Indiana on January 30–31 at the NCAA National Headquarters. Hosted once a year, the Commercial Summit brings all six First Merchants banking regions together. The team heard from executive management, took a deep dive into breakout sessions, listened to inspirational TED talks, and networked at the NCAA Hall of Champions Museum in the evening.

It was a fun-filled two days spent with teammates and learning valuable information to guide these bankers into 2018. 🏠



Pictured above: Commercial banking team at the Commercial Summit in Indianapolis, Indiana