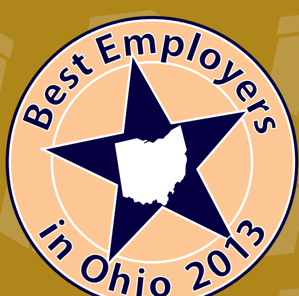
BankNotes

Commerce National Bank
A Division of First Merchants Bank, N.A.
The Bank for Business℠

2ND Quarter 2013

Welcome to Commerce National Bank's BankNotes newsletter! We think you will find BankNotes to be a useful tool for you and others in your company, and we encourage you to share our newsletter with staff and colleagues. Questions or comments about BankNotes? Contact Jessica Soto at (614) 583-2077.

Highlights In This Issue:

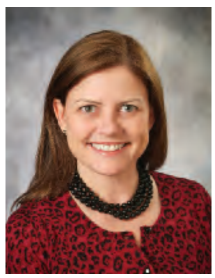


For the 3rd year running, CNB has been named one of the Best Employers in Ohio!

JENN'S CORNER

The Power of a Positive First Impression

by Jennifer Griffith, President and CEO



Certainly you're aware of the power of a positive first impression and the obstacles created by a negative customer experience. Negative encounters will spread like wild fire and multiply through social media channels without boundaries or control. Positive impressions have a tendency to go unnoticed and surprise us when they are shared.

Recently a teammate shared with me a negative experience she had trying to buy a new table and I'm certain I wasn't the first to hear her story. Another friend and client of mine shared a completely ridiculous and inaccurate piece of advice they received from a service provider. Again….it probably wasn't for my ears only.

On a positive note, I shared an exceptional experience I had with Kevin King at Byers Imports with Mark Sanborn last year, author of *The Fred Factor* and CNB's speaker for our Spring Seminar & Network Fair. Mark included this positive experience in the recently released, *Fred 2.0.* At CNB we use a "Kudos Board" to share in positive messages that enhance our team spirited culture. Recently Terry Hamm thanked Suzan Orban for doing a great job and putting up with him!

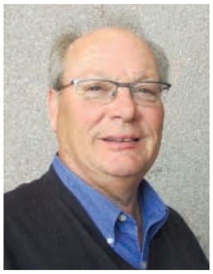
So other than the obvious token of advice, that a positive first impression is powerful, I wanted to share a few common sense rules for creating a positive first impression.

1. Always open conversation with a question not a statement and follow the golden rule of professional communication: "You before We before I".
2. Be an active listener. Use non-verbals like eye contact and body language to demonstrate that you're listening. Follow up with questions, not closed-ended agreements.
3. Smile…Be happy.
4. Don't talk about yourself.
5. Commit to a follow up plan. Accept ownership and take action.

Creating an environment which keeps people engaged with you, your team, and your business is magical. When teammates, customers, friends, and investors all feel so good in your presence that they keep coming back……well that's the power of a positive first impression!

Cyber Crime is a Growing Problem.

David Benjamin, Bank Security Officer



Cyber crime continues to flourish at an alarming rate both nationally and internationally. You are misinformed if you think that your personal and business accounts are immune to a cyber crime or that the odds are in your favor of not being a victim of a fraud by having your information compromised. According to John Boles, Deputy Assistant Director of the FBI's Cyber Division, there are four malicious groups creating havoc in the cyber world. They are foreign intelligence services, terrorist groups, organized crime enterprises and hacktivists. According to Boles, with these diverse threats against our government agencies, businesses, financial services and our citizens, it is anticipated that cyber security may well become the FBI's highest priority in the years to come. The FBI has launched a new program titled the Next Generation Cyber Initiative which has allowed for a greater focus on cyber intrusions, the hiring of more computer scientists, the creation of cyber tasks forces in all 56 FBI field offices and the expansion of partnerships both within and outside of the government.

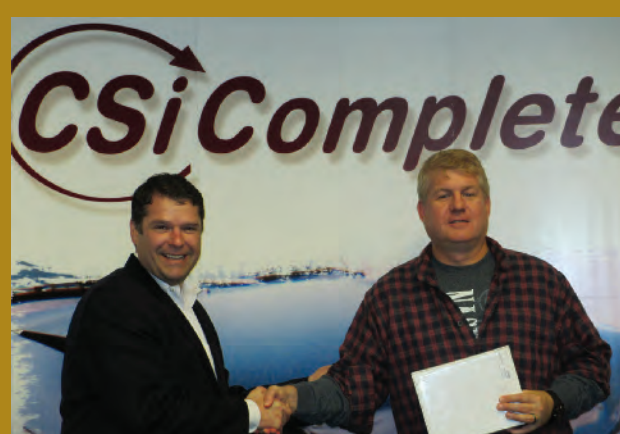
There are various ways that criminals get your information. One of the most common is sending mass e-mails, known as spear-phishing, to your employees. Their hope is that your employee will open this "official" looking e-mail and click on the link. Once that happens, the door is opened, and a breach can occur by exposing your computer system and company information such as account numbers and ACH entries. Today, this type of crime is happening less to large and medium companies because businesses have gotten smarter about strengthening their firewalls and protecting their information. Now these criminals go after smaller companies and individuals. These crooks are smarter about where they direct funds they obtain fraudulently and quicker about getting them. For example, funds may be directed to a Green Dot VISA card which can be obtained at various retail stores. Green Dot cards are basically pre-paid credit/debit cards. The crooks purchase a VISA card, and direct those funds they have just obtained fraudulently by hacking into your computer system (or PC). Once they receive the information (within a 24 hour window), they withdraw the funds at ATM's. They act quickly and quite often before you have even realized what has happened.

These are just two examples, but I could go on and on. So what can you do? CNB has taken a layered approach to regulating the necessary security controls for our customer's online banking. We have partnered with our customers by implementing these layered controls that we use in our security efforts. One important element is educating our customers about the controls they can implement to protect themselves and their business. CNB has a great document titled "Protecting Your Money from Electronic Fraud". If you do not have a copy, please contact your banker and request that a copy be sent to you, or simply ask for a copy the next time you are in the branch. It contains best practices that you can do and ways to educate your employees (Such as not clicking on links from e-mails and maintaining up to date anti-virus software). Education and communication is a major key that we can do to help combat cyber fraud.

Please contact Dave Benjamin for questions or concerns regarding your cyber security at 614.583.2200.

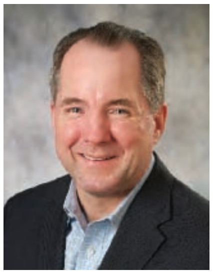
Congratulations to iPad Winners John Webb, Martin Brady, and Eric Colombo!

In the fall, First Merchants Bank and Commerce National Bank participated in the first ever Business Call Day. This allowed relationship managers from all First Merchants Bank regions to learn more from their clients about how they view the economy and how their business may be affected by its current state; the feedback allows our bank to better align services with business needs. As a thank you, business owners were invited to complete an online survey for the chance to win an iPad. Congratulations to winner John Webb and CNB Relationship managers Martin Brady and Eric Colombo! They all received iPads for their participation.



Effective Evaluation is Key to Team Development

by Martin Brady, Senior Vice President and Chief Sales Officer



As I write this article, it is finally Spring 2013. We are not able to tell this by looking outside, but if you look at your calendar it is surely true. In a short time, we will be returned to warmer weather and Summer will be here before you know it. As spring rolls around, I always get to turn my attention to annual reviews for our Sales Team. This is an important and valuable exercise for both the individual and me. Hiring great people continues to remain a key to success but team development is just as important. Here are a few items I picked up while performing employee annual reviews:

Be prepared – This works both ways. My expectation is that the person being evaluated will have a review of their own performance, the team performance and my performance for the period. This includes discussing the many positives during the year, but also, some items that can be worked on.

Be honest – Being honest and being brutal are not the same thing. Discussing a weakness or an area of concern is an important part of the review process. Handling this well can be a challenge. I have asked people to discuss something that they need to work on and sure enough, most people come up with the same idea that I would like to discuss. The entry into the conversation is almost always the hardest part.

No surprises – Our employees need feedback over the entire course of the year. The annual review is an opportunity to recap the year and discuss big goals and needed areas of improvement. If the review becomes a laundry list of failures, your employee is going to wonder why some of these items were not brought up during the year.

Simple – Review forms need to be simple. If a form is too long or complex, neither the employee nor the manager will want to fill them out. They will procrastinate and provide subpar evaluations. The annual review is about the discussion, not the form. Goal setting and feedback are what we are after.

Coaching and feedback are critical to developing your team. These both need to be done during the year and on a regular basis. The annual review is an additional tool that will allow you to continue developing your team.

Contact Info

You may call (614) 583-2200 and ask to be transferred to the appropriate individual.

Our Customer Call Center at **888-716-1514** is available extended hours:
Monday–Friday 7:00am–7:00pm
Saturday 9:00am–1:00pm

Fax
614-583-2201

Account Inquiries & Research
ACH
ATM & Debit Card
Online Banking
Customer Call Center,
888-716-1514

Courier Pickup
614-583-2150

Credit Cards & Merchant Services
Alicia Murphy
Kelly Robinson

Customer Suggestions
Cathy Dieckman

Deposits, Loan Accounts, Inquiries, Stop Payments
Patty Davis
Jan Patton
Logan Boone

Loan Payoff Requests
Darlene Willens
Tina Smith

Lockbox
614-583-2155

Security Concerns
David Benjamin

Telephone Banking
614-583-2155

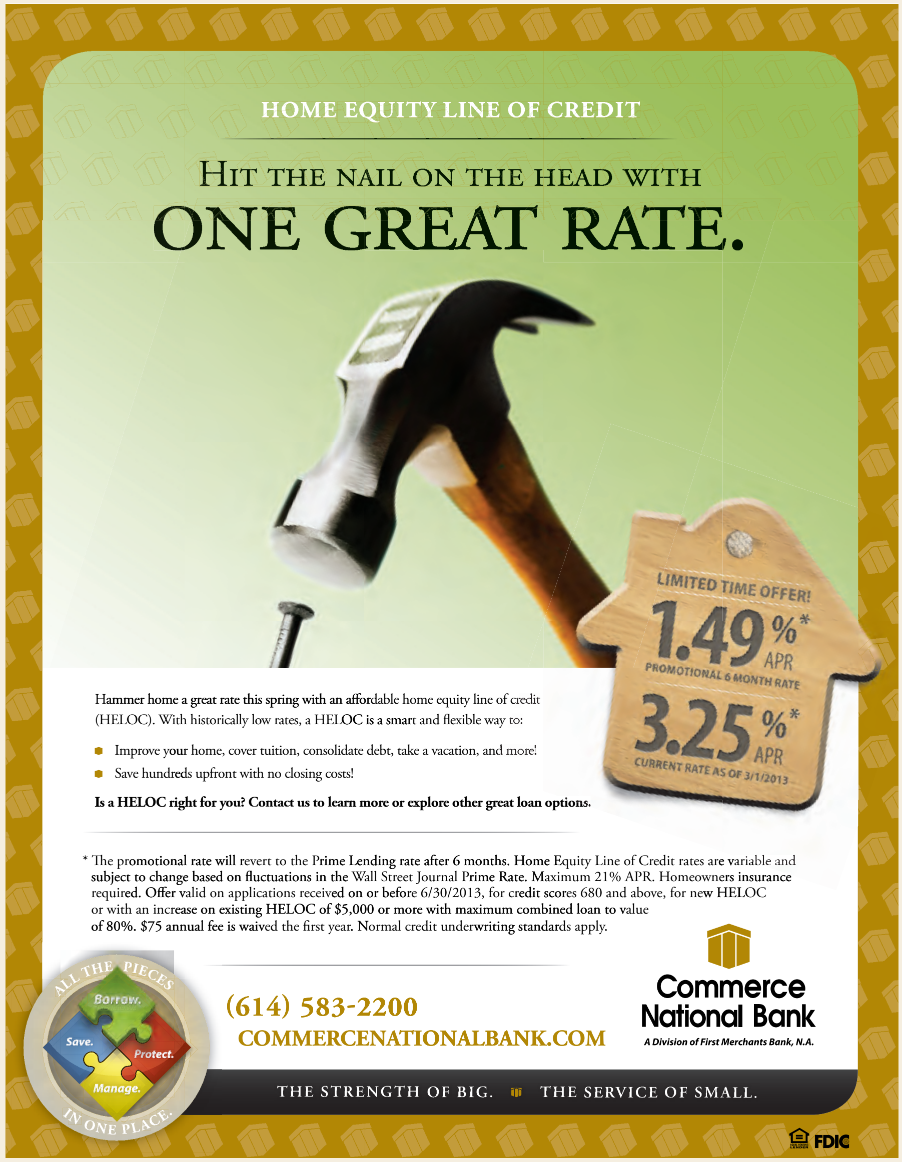
Wires
Mindy Beck

Wires Fax Line
614-583-2157

Consumer Corner

Did you know that Commerce National Bank offers personal checking and savings accounts for you and your employees? We also have loans for all seasons and any reason; great rates on vehicle, mortgage, personal, and home equity loans.

Call us today at 614-583-2200 to find out about our low interest Home Equity Line of Credit Loans.

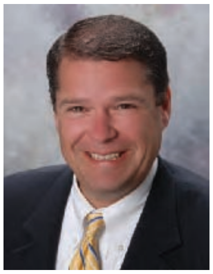


Meeting Space Available!

Are you looking for extra meeting space for your next business gathering? CNB would like to help. As a value-added benefit to our clients, Commerce National Bank has meeting space available to use at no cost. If you are interested in getting more information or making a reservation, please contact Barb Atherton at (614)583-2200.

The Spirit of Volunteerism

Eric Colombo, Vice President, Relationship Manager



The heart of a community bank is the spirit of volunteerism and servant-leadership provided by the company, its leaders and its employees. Commerce National Bank firmly believes in giving back to our communities by sponsoring community events and encouraging employees in their volunteer activities. We believe that a successful corporation must also contribute positive societal influences. The act of volunteering provides employees with an opportunity to explore their personal values while expanding their understanding of diverse cultures and backgrounds. Moreover, a key component of any wellness initiative is emotional growth. We believe all of these activities nurture our emotional need to feel connected by allowing us to be a positive contributor to society. Finally, the hope of all charitable activities is to make a positive impact on the lives of others.

So what is volunteering anyway? Words and phrases like "altruism" or "doing good" come to mind. Volunteers represent different genders, ages, and career stages. The time commitments range from impromptu to regularly scheduled acts of kindness. The work includes office work, independent projects, episodic, online, advisory and board service. Among these diverse characteristics are some common elements; an interest, desire, and/or willingness to do good; contributing time, skills, and energy towards something that doesn't benefit only one's self, friends, or family; and not expecting any sort of reimbursement or payment in return for one's efforts.

Volunteers rarely speak of the benefits of volunteering to themselves — maybe it feels a bit too self-centered, or too far from the altruistic vision of the selfless volunteer. Volunteering can be far more rewarding than simply doing a good deed. In fact, volunteering can be a great way to develop skills, make friends, garner new professional contacts, get exercise, spend time outdoors/with animals/with kids, or even just shake up your routine. So who says that doing good and enjoying yourself while meeting your own personal/professional goals can't happen at the same time? If in the process of meeting your personal and professional goals, you are also serving as an effective volunteer, helping to meet the goals of your particular volunteer project or role, and/or helping to move an organization's mission forward; it's a win-win situation!

Here is one more way to visualize the impact of volunteers. Try to imagine if one day, all the volunteers simply didn't show up. Imagine what our cities, towns, state parks, schools, places of worship, and libraries would look like? What basic needs would go unmet? What opportunities to grow, learn, and thrive as a society would be lost? The truth is, you are likely to cross paths with a volunteer at least once if not several times a day.

I want to encourage everyone to go out and volunteer on a regular basis. Thinking about your goals, interests, and skills will steer you towards volunteer roles that you will get a lot out of!

2013 Recycle-O-Rama

4th Annual Spring Event & Brunch

A CELEBRATION OF EARTH DAY

In collaboration with:

possitiv!ty unlimited possibilities

THE SALVATION ARMY

Leslie's CREPERIE

Shred-it

Date: 04/22/2013 **Time: 11-2 pm**

It's time to spring clean your office to help benefit a great cause. Earth Day **will kick off the 2013 O**peration Feed Campaign at our 4th Annual **Recycle-O-Rama!**

- **Donate computers, FAX** machines, copiers, PDAs, monitors, wires, TVs, **printers, phones and cell** phones.
- **Donate canned food and gentl**y used coats.
- **Take advantage of our free document destruction** services **(W**ith a 5 box limit).

Leslie's Creperie food truck will be serving crepes for lunch! A portion of all lunch proceeds will go to the Mid-Ohio Food Bank!

WE LOOK FORWARD TO SEEING YOU THERE!

Find details and a full list of accepted items for this event on our website at www.commercenationalbank.com.

Questions? Call Jessie at 614-583-2077

MEMBER FDIC

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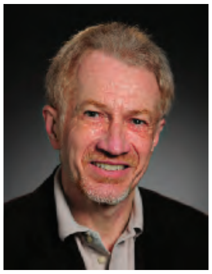
It's Time for Government to Get Its Fannie (and Freddie and FHA) Out of Mortgage Markets

by James E. Newton, CNB Chief Economic Advisor



Imagine you are aware of two companies that, over the past few years, have managed to record losses of $130 billion, with the potential for more red ink flowing in the future. Would you expect to see these companies continue to operate and shake down unsuspecting investors?

Chances are most of us would answer "no" and anticipate a quick end to a couple of corporate losers. Sadly, the U.S. government is sustaining two such failures and American taxpayers represent the unsuspecting "investors" described above.

On September 6, 2008 the nation's two government sponsored enterprises (GSEs) charged with advancing the goal of home ownership – Fannie Mae and Freddie Mac – were placed under government conservatorship. Through years of poor decision making and relying upon an implicit government backing, these for-profit GSEs obtained relatively cheap funds and allowed their private investors to profit handsomely. Unfortunately, the GSEs failed; with taxpayers (unsuspecting public investors) footing a bill that presently runs over $130 billion.

Just as unsettling is that the Federal Housing Authority (FHA) may be announcing later this spring they also may be ready to feed at the public trough of government-sponsored deadbeats. Taken together Fannie/Freddie/FHA now account for approximately nine-of-ten mortgages in the U.S.

Virtually everyone agrees that the exposure of taxpayers to on-going losses must end. The latest government brainstorm to address the issue is to combine some backroom operations of Fannie and Freddie to hold down costs. Perhaps rather than reforming Fannie and Freddie, the two GSEs should be prohibited from involvement in new home loans and should simply ride out their remaining lives based upon servicing the mortgage instruments they have already obligated American taxpayers to guarantee.

Clearly, such a solution requires a new means of providing mortgage monies for borrowers; a solution that provides a sizeable quantity of funds but without involving government. In short, a market-driven alternative to the failed Fannie/Freddie/FHA loan-guarantee model.

So, how does one go about finding such an alternative? As it turns out, the history of our financial sector provides a clue, but with the modern-day spin needed to eliminate government intervention. Specifically, the guidepost is the savings-and-loan association. Historically S&Ls were institutions which would allow large numbers of people to deposit funds, and earn a rate of interest, with those funds then establishing the reserves needed to provide loans to homeowner-wannabes. In effect through S&Ls as intermediaries, one set of people provided home loans to another set of people. To be sure, that earlier form government was involved via the FSLIC, the savings-and-loan equivalent of FDIC.

So, what subsector of the present financial world has the size needed to absorb such a potentially huge volume of transactions without government involvement? The mutual fund industry.

Presently investors can invest monies in various types of mutual funds including stock, bond, and money market mutual funds. Such investments can be channeled through a tax deferred account – such as 401(k) and 403(b) plans – or through direct investments. And the quantity of funds here is massive, with the Investment Company Institute estimating $23.8 trillion worldwide in mutual funds at the end of 2011, of which $13 trillion was based in the U.S.

In an effort to tap into these huge volumes of funds – and to give savers a wider range of options with potentially improved rates of return – I propose the creation of a new type of mutual fund; a mortgage market mutual fund (MMMF), where both large and small investors could pool their resources and purchase mortgages from loan originators.

At least initially, the loans purchased would not be existing loans, but rather newly-minted loans which banks and other mortgage originators choose to sell. And the mortgages purchased by MMMFs would not be mortgage backed securities (MBSs), but rather entire packages of loans fully owned by the MMMF. At the point of purchase, the MMMF would decide whether to continue using the bank as a mortgage servicer – so as to hold down operating costs – or to develop those servicing activities in-house.

As purchasers of packages of mortgages, the MMMF would rely upon the due-diligence efforts of mortgage originators to insure that only financially responsible borrowers are provided new mortgage monies. At least two ways seem possible to insure responsible loan-granting decisions by originators. First, the MMMF could challenge loans later deemed irresponsible in a court of law. One need merely examine the poor performances of mortgage originators through 2007 to see the need for such protection for MMMFs.

A second potential safeguard would be for loan originators to reinvest some funds in the MMMF for each package of mortgages sold. So, for example, mortgage originators might be required to reinvest 3-to-5 percent of the price of package of loans in the MMMF. In that fashion, the mortgage originator has some "skin in the game" and is more likely to be thorough in providing sound, secure mortgage loans.

With the establishment of MMMFs, the need for Fannie/Freddie/FHA could come to a much-desired end. And like the S&L model of old, this 21st century model would provide an environment for people (savers) to loan funds to other people (mortgage borrowers) through a private-sector entity (the MMMF) without involvement by the government.

How might a MMMF be structured to serve the interests of investors? While the precise structure of any particular MMMF would be established in a prospectus, at least a couple of generalized forms seem reasonable. Whether for a direct investment or for those who might invest through a tax deferred savings vehicle, the MMMF might simply be part of a family of mutual funds from which to choose, with the monies growing over time until the investor decides to cash-out and end participation in the mutual fund.

As an alternative, some MMMFs may be structured to permit a "pass-through" type of arrangement where, after the purchase of a particular package of mortgage loans, both principal and interest are repaid over time. Such a MMMF arrangement may be particularly attractive to investors primarily interested in generating income rather than long-term growth of the asset's value.

Should this solution to the on-going funding issue in housing be utilized, it must be recognized that as a pre-condition for MMMFs to exist and prosper, the Federal Reserve System would need to end its active manipulation of interest rates. In the same way that America's savers are being punished by current Fed policies, such manipulative efforts might easily harm MMMF investors.

The time has come for our nation's policymakers to set aside political posturing and eliminate the role of Fannie/Freddie/FHA in mortgage markets through a market-driven replacement such as the MMMF. With the costs to taxpayers now north of $130 billion, the timely deaths of Fannie, Freddie, and FHA will likely be mourned by few Americans.

Dr. Newton's views do not necessarily reflect the opinion of Commerce National Bank or First Merchants Corporation.

2013 Economic Forecast

At Commerce National Bank's 2013 Economic Forecast, held at the OSU 4-H Center on January 23, more than 100 attendees gave their attention to Jim Newton as he gave his final Economic Forecast. Tom McAuliffe, Founder and Former CEO of CNB, honored Jim with a gift to commemorate the start of his retirement from Chief Economic Advisor beginning this June. Jennifer Griffith, current President and CEO, stated that CNB will continue to host this event with a new economist beginning in 2014.

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Don't Let History Repeat Itself

by Jim Keene, Vice President, Personal Trust Officer

Everybody loves a bull market! So, when stock values are soaring, as they are now, even seasoned investors may ignore the possibility that an equally steep plunge might be just around the next corner. Some investors have quickly forgotten that just 5 years ago stocks were free falling. That's why it's important to establish certain guidelines for buying and selling investments that you can follow no matter what the market is doing.

Mistakes can lurk amidst the best of intentions, and investors don't always recognize when they're about to go astray. The key is to understand — and avoid — behavior that can undermine your investing goals.

Sweet Emotion. When the market is in an upswing, it's easy for investors to fall prey to unbridled optimism — just as it's easy to embrace pessimism when the market is in a slump. Buying and selling investments should never hinge on emotion. The decision to buy or sell should be rational, based on criteria you've established ahead of time. Letting your emotions overrule your judgment may lead to poor investment decisions and disappointing long-term investment performance.

Don't Look Back. Chasing performance is one of the most common investor mistakes. By the time you recognize a "hot" sector, stock values may have already peaked. That means you'll be buying when prices are high, with no guarantee that the stock will continue its winning streak. Before you invest, find out what's driving up the stock's price — strong fundamentals or simply investor speculation. Buying a stock that has substantially appreciated recently can lead to significant losses if the price falls back to earth.

It's Just a Fantasy. You picked a few stocks that performed well, and suddenly you've begun thinking you're an investment guru! Overconfidence can be the downfall of investors, so avoid it at all costs. Be realistic about performance expectations, stick to a plan, and keep your tolerance for risk in mind. Choosing solid stocks with the potential for healthy returns takes market savvy.

Hiring an investment manager might be in your best interest. We're here to help! Please feel free to contact Jim Keene at 765-962-7696 with any questions regarding investment management or estate planning.