BankNotes

Third Quarter News

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First Merchants® Bank
THE STRENGTH OF BIG THE SERVICE OF SMALL

Operating Ratio and Its Efficiency

By Jennifer Griffith

The operating ratio quantifies the efficiency of a company's management team by comparing operating expense to net sales. An operating ratio that rises over time is indicative of an inefficient and struggling environment. It also suggests that the company may not be able to absorb a decline in sales. Likewise, an operating ratio that declines over time is representative of an efficient and engaged team. Strong operational efficiency tends to support great sales people to sell more!

In 2007, The Carrot Principle hit the New York Times Best Sellers List when it published research that directly connected positive recognition to operating efficiency. Their research concluded that companies who recognize great behavior naturally build an environment where employees driver harder, sell more, and solve problems quickly. These are the key

elements of your operating efficiency. In the book, the research pointed to Return on Assets (ROA) and Return on Equity (ROE) models from organizations that regularly used constructive praise to engage and motivate their teams as approximately three times that of companies that didn't place an emphasis on recognition; however, the operating efficiency was more than six times greater!

So what motivates your team? What motivates you? I bet you both have a lot in common.

"The need to control is a biological imperative," a group of Columbia University psychologists wrote. When people believe they are in control, they tend to work harder, push more and overcome setbacks faster. One way to affirm control is by making decisions. No matter how small, each and every choice reinforces the perception of control. The power of decision making will motivate all of us.

Getting ahead requires an efficient business model. Outpacing the competition mandates hard work and personal drive. I encourage you to think about changing the way decisions are made inside your company, to impact the level of motivation your team brings every day, to drive your operating efficiency ratio to top tier performance metrics, but that's just me... you decide.

Jennifer Griffith is the Ohio Regional President of First Merchants Bank. Jennifer would love to hear your story and would love to share ours. Please feel free to contact her directly at 614.583.2050 or by email at jgriffith@firstmerchants.com.

A Summer of Uncertainty

By Mike Hicks

It is now seven years since the end of the Great Recession. Even the most optimistic assessment of the current economy is that it remains fragile and uncertain. As 2015 came to an end, the economy visibly slowed. Holiday retail sales barely topped those of 2014, and employment growth stalled, as much of the world slipped deeper into a recession. While job growth remained modest but positive throughout the first few months of 2016, growth in Gross Domestic Product was weak, and by May, the labor market stumbled badly.

The May jobs report was bad in every conceivable dimension. The labor force dropped by more than a half million from where most economists expect it to be, actual job creation was half the level it would normally take to absorb new workers, and an explosion in part–time employment erased nearly all the full–time job growth of the year. The composition of employment did not signal future growth and, when adjusted for inflation, wage growth was negative.

The reasons for this sluggishness are not perfectly clear, but I'd like to offer three or four thoughts, focusing first on the short run, then the long–term conditions our economy faces. I begin with an examination of the world economy.

The general slowdown which became painfully obvious in early 2015 is real. Much of the world is in recession, with only the United States and northern Europe escaping it. At least part of this, in China especially, is due to a real estate bubble collapsing. This collapse, which is similar to what was observed in Japan a quarter century ago, offers a chilling vision on the return to economic growth China has shown over the past thirty years.

Adding to the short–term woes are the large increases in political uncertainty in much of the world. South America is going through a larger than typical spasm of failed governance, and the collapse of civil order in much of the Middle East and North Africa has spread political and policy uncertainty to nearly all of southern Europe. In good times, this flood of refugees and risk of terrorism would be a difficult challenge for strong and effective democracies; however, the Great Recession has left the political fabric of Europe weakened, and this task is sufficient to risk the collapse of many of the parlimentary governments in Europe. Combining the

Russian military incursions in Ukraine and other Baltic and Balkan nations, the world has all the ingredients for disaster.

The good news regarding this series of events is that there are some signs of life in the world economy. U.S. factory orders sparked into positive territory in April and May, and consumer spending also rose. Typical recessions are short affairs, lasting less than a year, so it is tempting to conclude that the international economy has already hit bottom and may be in slow recovery. This possibility is bolstered by the most recent World Bank forecasts which predict growth at a slower, but not recessionary, 2.4 percent for 2016. Hope is always a good thing, and with that I'll turn to the long run.

Growth in the U.S. economy has been slowing for almost a decade, and inflation adjusted per capita Gross Domestic Product tells most of the story. From 1960 to 2005, growth rates in GDP per person were in the 2 percent range. There were several recessions, and strong period of growth from 1965 to 1973 when growth averaged about 3 percent. Since 2005, growth has been much lower and, since the end of the recession, growth has hobbled along at less than one percent. That is a long–term problem of far greater dimension than an occasional recession.

The causes for this aren't immediately clear. Several prominent economists have suggested that a lengthy period of slower growth is part of longer term rhythms of the economy. In this scenario, periods of rapid technological adoption are followed by periods of much slower adoption. I find this argument very compelling, but am heartened by two features of the argument. First, economists are often mistaken in their forecasts about innovation, so some immediate change to this prognosis may be looming. Second, this prediction is only referring to workplace productivity. Innovations of the past couple decades might make significant improvements in our quality of life. If we are all better off and enjoy far more productive periods of leisure, a slower growing formal economy might not trouble us.

There is another argument as well—that the world remains trapped in a period of low demand of the type John Maynard Kernes warned about. The best argument for that is the persistently low interest rates, which imply businesses do not feel they can profitably borrow money to invest in capital due to low rates of return. History suggests only a large economic shock lifts growth prospects. This sort of slow growth scenario has seemingly stymied growth in Japan since the 1980s. The worry with this scenario is obviously that the U.S. may have entered a lengthy slow growth period.

As Summer turns to Fall, we'll have more insight into the short run, and whether the economy will rebound more strongly or remain perilously close to recession. It is this uncertainty that led the Federal Reserve to postpone interest hikes, but Fall will not bring clarity to the long run situation. It is against a backdrop of slow growth that the November election, and the policy debate surrounding it, will be framed.

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.

Best Employer in Ohio Since 2010!

First Merchants Bank was recently named one of the 2016 Best Employers in the state of Ohio! This is the Ohio Region's fifth year receiving a Best Employer award! The annual list of the Best Employers in Ohio was created by the Ohio SHRM State Council and Best Companies Group.

Companies from across the state entered the two-part survey process to determine the Best Employers in Ohio. The criteria include workplace policies, practices, philosophy, systems and demographics, as well as an employee survey to measure the employee experience. The 2016 Best Employers in Ohio list is comprised of 39 companies.

To celebrate this achievement, the Ohio region had Best Employer t-shirts made for every employee, provided a pizza party and had a jeans day on Friday, June 10! Everyone continued the fun on Saturday, June 11 at Huntington Park with a fun family night out to watch the Clippers take on the Scranton RailRiders!

Best Employers in Ohio 2016

Credit Card Acceptance

By Susan Adams

October 2015 generated many changes when it comes to being a business owner and accepting credit cards. EMV, the Europay, MasterCard, Visa secure chip card acceptance machines were mandated to be in place. This changed the face of the credit card transaction, and the security of the cardholder's information. EMV cards are more secure than traditional cards because the computer chip creates a unique transaction code that cannot be used again.

Following the October 1, 2015 deadline created by major U.S. credit card issuers MasterCard, Visa, Discover and American Express, the liability for card–present fraud shifted to whichever party is the least EMV–compliant in a fraudulent transaction. If a financial institution issues a chip card used at a business that has not changed its system to accept chip technology, and this allows a counterfeit card to be successfully used, the cost of the fraud will fall back on the business owner.

First Merchants Bank has secure credit card processing solutions to fit any need, and you can trust us to deliver the right ones to help grow your business. We can help by answering questions you might have about the EMV process, and help you accept credit card payments your way with innovative ways that allow you to process payments anywhere.

No matter where you are—online, in–store, or on the go—you will be able to process credit card payments easily and securely. First Merchants Bank offers simple and secure credit card processing solutions by using encryption and tokenization technologies, and a PCI (Payment Card Industry Security) compliance program to keep payment data protected while in use, at rest, and in transit.

Credit card processing solutions include verifying credit cards on your PC or laptop for the back office, online processing for your e–commerce, and mobile devices such as tablets, iPads, and smart phones, which will allow you to process credit card payments anywhere. Solutions for the counter include EMV and NFC (Near Field Communication, such as Apple Pay, PayPal and Google Pay), contractless terminals, and Point of Sale systems.

Prepare for a secure credit card processing future, and never say "No" to a customer about accepting their credit card.

For more information, please contact Susan Adams, Merchant Card Services Officer at 614.583.2196 or by email at sadams@firstmerchants.com.

Ohio State Fawcett Center

Biennial Spring Seminar & Network Fair with Alison Levine

On Thursday, May 12, First Merchants Bank hosted its Biennial Spring Seminar & Network Fair at The Fawcett Center on The Ohio State University's campus. The event started with registration and networking before guests were seated in the theatre to listen to Alison Levine. Levine is a mountaineer, adventurer and New York Times best-selling author, who spoke to the audience by drawing parallels between staying alive in the mountains and thriving in a fast-paced business world. Levine covered topics of leadership development, team dynamics and overcoming odds.

Ms. Levine completed the Adventure Grand Slam, meaning she climbed the highest peak on every continent, and has skied to both the North and South Poles. Fewer than 30 people in the world can claim this achievement. Levine captivated the audience with her breathtaking imagery from her adventures, and entertained with her humor, all while bringing us her powerful message. Everyone who attended the event received a free, signed copy of her book, *On The Edge*.

After Levine's keynote, the audience transitioned to the ballroom of The Fawcett Center, where the evening continued with a Network Fair. The Network Fair featured First Merchants Bank customers and community partners from Central Ohio. Customers and employees enjoyed themselves and were thrilled First Merchants Bank invests in educational events.

Merry Korn, CEO of Pearl Interactive Network, passed along a heart-warming note: "Just a note to say I had a really good time tonight. It is so thoughtful of your bank to care enough about your clients. What a wonderful opportunity for us to get to know each other."

It's these kinds of relationships that make our client seminars priceless! A big thank you to the companies who participated in the Network Fair. The Network Fair would not have been a success without you!

Big Brothers Big Sisters

Community Day in Hocking Hills at Camp Oty'Okwa

On Tuesday, June 14th, a team of FMB Ohio employees traveled to Hocking Hills to Camp Oty'Okwa, a Big Brothers Big Sisters campground, to volunteer their time for the day. This group included Brittany Lang, Marina Smith, Savannah Norris-Jenkins, Jennica Justice, Justin Stevens, Jeri Jones and Sam Johns. It could not have been a more beautiful day.

The group was able to fill their day with maintenance projects around the campground. This included raking rocks, pulling weeds from a wildflower garden, putting together candles, building a bonfire and spreading mulch. These may sound like daunting tasks, but having our group accomplish these activities took some weight off the camp counselors. Our group was able to melt the bottom of sixty candles and stick them to a piece of round cut out wood. These little candles would be used the following day at the end of the session in the evening. The kids would enjoy a bonfire with skits and songs. After the bonfire, the kids would be given one lit candle and walk quietly in a line to the swimming pool. They would then all gather around the swimming pool for a story. After the story, they would release their candles to float in the pool. Our FMB group was able to help contribute to that excitement and have an impact on the campers.

Camp Oty'Okwa is a privately–owned and preserved 700–acre gem in Hocking Hills. This beautiful camp is owned and operated by Big Brothers Big Sisters of Central Ohio. Hundreds of children benefit from its Summer Camp programs each year, and its year–round facilities are available to community and school groups. Camp Oty'Okwa has been in existence since 1942. At that time, there was a belief that working with children in small, family-oriented groups away from their home environment could produce positive results that could last a lifetime. Seventy years later, they still believe in the value of the camp experience and the positive role-modeling that occurs there.

Buying verses Leasing

By Bill Ingham

I am often asked by my medical, dental and vet customers if buying a building for their practice is smarter than leasing their current location. There are many answers to this question from a banker's perspective.

First of all, you need to consider your current situation. Are you currently leasing your space and, if so,what are the market conditions? Is your rent comparable to other medical use offices in your area, or are you paying a higher rate than you should be? What is the relationship that you have with your landlord? Are they willing to work out a new agreement with you if you agree to stay in the space longer, or do you have no flexibility to negotiate a new agreement? Is it possible to negotiate staying in your space and having the landlord offer to improve the building or interior space (i.e. parking, signage, HVAC, interior finishes, etc.)? More often than not, the current landlord will stand on his current lease agreement and have limited offerings when trying to re–write a new lease that supersedes what you have in place.

Let's say that staying in your current space is not an option, and you would like to own your own building, stop paying rent, and build equity in another asset outside of your practice. Most of my customers choose to go this route for these reasons. If so, there are likely two scenarios to choose from: buying an existing building; or constructing a building from the ground up. Both of these options have pros and cons but, ultimately, it's going to be your decision on what you prefer. The good news is that First Merchants Bank has conventional real estate financing options for both scenarios, and the ability to lend up to 100% in either case. In some instances, a customer can undertake a new real estate project and end up paying close to, and, in some cases, less per month on the loan for the building, than they were paying in rent!

In the end, when you decide to pursue owning your own building, you will have many questions, with many answers. First Merchants Bank is here to help in the process, and I am happy to discuss what make sense (or cents!) in the long run for your business.

Bill Ingham is a Relationship Manager for Healthcare Banking at First Merchants Bank. If you'd like to discuss buying verses leasing with Bill, call him at 614.583.2183 or email him at wingham@firstmerchants.com.

Down Payment as a Gift

By Graham Montigny

Even with good credit and verifiable income, the largest obstacle to most first–time home buyers is the ability to save the needed funds required for the down payment and closing costs associated with a purchase mortgage. Many hold the misconception that the down payment money must be saved personally by the buyer, but that is not the case. Depending on the loan type, the entire down payment and closing costs may be a gift. For instance, FHA permits as little as 3.5% of the purchase price as a down payment and all of it may be a gift.

There are rules that apply to how the gift is given, and it may feel invasive to the gift giver. The first requirement is a gift letter, signed by the donor and recipient, stating the relationship of the giver to the recipient, where the gift funds are coming from, and the fact that no repayment is expected for the gift. The gift giver will also be required to provide the most recent statement from the account mentioned in the gift letter as proof that they have the ability to give the gift. Once the gift is deposited, the giver will then need to provide either a canceled check or some other proof, usually an online activity print–out, that the gift funds have cleared. The recipient of the gift will need to provide a copy of the desposit slip for the gift and proof that the funds are available, usually with an online activity print out.

Who gives the gift also matters. Immediate family members, grandparents, aunts, uncles, cousins, nieces and nephews may be gift providers. An employer may also be a gift provider. In some cases,

close friends or other acquaintances with a close relationship, (for instance, a foster parent) may also give the gift.

The home seller, realtor, builder or any other person with an interest in the transaction is not allowed to contribute a gift. In the case of an investment property, no gift is permitted and all the funds must be from the buyer.

Giving and recieving a gift for the down payment to buy a home can be complicated, but First Merchants Bank is here to help you with any gift–giving questions you may have!

Graham Montigny NMLS# 195412 is a Mortgage Consultant at First Merchants Bank. If you'd like to discuss gift giving with Graham, call him at 614.583.2151 or email him at gmontigny@firstmerchants.com.

The Fed Should Not Raise Interest Rates

By Walter Kropp

Are you better off now than you were a year or two ago? Probably not, and the possibility that the Federal Reserve may have some interest rate hikes in the near future will not help things. There are four remaining Federal Open Market Committee meetings this year, with the next one being in late July, and the Fed has indicated the possibility of an increase in rates before year–end. This would be a mistake, in my opinion.

First of all, the job situation has a lot of room to improve, and raising interest rates will not help. The unemployment rate is at 5 percent, but there is still a high level of involuntary part–time employment and a low level of employment for prime–age workers, leading to overall productivity growth being slow. An interest rate increase will lead to adverse unemployment rates, labor participation and further lessening of wages in general.

Next, inflation appears to be under control right now. Typically, the Fed has a benchmark of 2 percent inflation per year as their long–run goal. Inflation may have picked up the past few months, but it is still under the 2 percent benchmark. The Fed should have more proof that the 2 percent is being exceeded before thinking about an increase in interest rates, in order to limit inflation.

Overall, while the U.S. economy has improved, the global economy is still shaky, especially in Europe and Asia. Unemployment rates in Greece (24%) and Spain (20%) are the highest in Europe, which has an overall unemployment rate in excess of 10 percent. An increase in the U.S. rates may spill over to these areas and cause further damage. Furthermore, economies in Japan and China are also struggling. An increase would result in further damage to those economies as well, let alone to the U.S. economy.

Finally, the stock market could also be impacted with a rise in interest rates, and we all know how shaky the stock market has been. It would not take too much to take the already over–valued market toward a correction of some sort.

One of these days, the Fed will raise rates, mostly just to follow through on what they have pledged to do. Plus, if the economy heats up and is viewed as doing better than anticipated, the Fed will probably raise rates anyway. The same is true on inflation of the stock market. If inflation goes up or the stock market gets too high, an interest rate increase could be attempted to reign them in.

Walter Kropp is a Relationship Manager in the Ohio market for First Merchants Bank. If you would like to connect with him, please call 614.408.0240 or email wkropp@firstmerchants.com.

Historic Tax Credits

By Ted Trabue

The Federal Historic Preservation Tax Incentives program is meant to encourage private sector investment in the rehabilitation and re–use of historic buildings. The program was founded in 1976 and is estimated to have leveraged some $80 billion in private investment in over 40,000 buildings across the country.

Basically, a 20 percent income tax credit is available for the renovation of historic, income–producing buildings that are determined to be “historic certified structures.” The determination is generally based on the age of the property and/or having it placed on the “National Register of Historic Places” listing. Because many of the developers or re–developers of the properties cannot use the tax credits, as they have no taxes to shelter due to amortization of their existing portfolios, the tax credits are often “sold” in a secondary market. These building types include office, retail, mixed–use, factories and many other types of properties.

The tax credit amount is based on the cost of the renovation of the particular building and generally provide millions, and sometimes over tens of millions of dollars of “equity” for the re–development. The tax credits almost always make a project that would not be feasible into one that will “work.”

In cities where the primary source of business was industrial and manufacturing, there has been a decreasing need for downtown office space and developers have been utilizing historic tax credits to convert older office buildings to residential use. These cities would include Cleveland, Cincinnati, and Detroit. Recently, there has been an upsurge in people who prefer to live in or near the downtown areas of towns where they work, preferably within walking distance to restaurants, art galleries, theaters and other venues of entertainment.

In addition to the “historic property” requirement, there are other building requirements needed to qualify for the tax credits and the development may be subject to a recapture of the credits. To avoid any recapture of the tax credits, the owner of the building must hold it for a minimum period of five years after the completion of the renovations and the property being “placed into service,” and operate the property. The recapture would also be invoked if the National Park Services removes the building from the National Register within the five–year holding period. This would generally occur only if the owner alters the building exterior or constructs an addition that would cause the building, in the Park Service’s opinion, to lose its historic integrity.

Based on changing demographics, we would expect to see an increase in the use of historic tax credits in the re–development of downtown office buildings, which can be an important source of developer equity when used properly.

If you would like more information regarding historic tax credits, please contact Ted Trabue, Relationship Manager in the Ohio market at First Merchants Bank, at 614.408.0271 or by email at ttrabue@firstmerchants.com

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Olentangy: 3650 Olentangy River Road – 614.583.2200
Reynoldsburg: 6950 E. Main Street – 614.408.0375
Sawmill: 5811 Sawmill Road – 614.408.0274

MEMBER FDIC

Mid–Ohio Foodbank

Operation Feed Campaign Results

First Merchants Bank held its Operation Feed campaign during the month of June, raising $4,000 to help feed our Central Ohio neighbors in need.

Fundraising activities included a 50/50 raffle, a match the pet with its owner contest, an online auction and jeans days. In addition to our employee activities, customers were able to get involved by adding to donation jars at teller stations, purchasing cardboard bunches of asparagus for $1, and donating a total of 159 pounds of food.

First Merchants was also one of three financial institutions to provide cash and coin processing for Operation Feed, as well as offering free use of CoinZone/CoinStar machines.

Since 1980, Operation Feed has provided meals for families in need. Mid-Ohio Foodbank distributed 59,500,000 million pounds of food in 2015, enabling food pantries, soup kitchens and emergency shelters across 20 counties to provide food for more than 130,066 meals each day. 35% of food requests from pantries are for children; 15% are for senior citizens. About half of client households have at least one working adult. Only 5% of clients are homeless, and one in five is a homeowner.

From left: Craig Truax, Manager of Corporate Engagement at Mid–Ohio Foodbank, Zo Sellers, Brittany Lang, and Joan Lloyd, Director of Corporate Engagement at Mid–Ohio Foodbank