



BankNotes

Fourth Quarter News

Perception

Focus groups can be used as a way to gain customer perceptions.

Parsing the Candidates' Economic Plan

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THE STRENGTH OF BIG THE SERVICE OF SMALL



Perception

By Jennifer Griffith

Perception is key to the decision-making process.

Perceptions of value, convenience and ability are central to how we weed out the massive number of potential companies we

choose to do business with. Knowing the importance of client perceptions, we recently engaged with Saperstein Associates to conduct focus groups with our retail customers so we could learn more about their perceptions of the value, convenience and abilities of First Merchants Bank.

Marty Saperstein has been in the business of public opinion research, including conducting focus group, work for over 35 years. As Marty taught us, qualitative research reveals the “why” beneath the “what.” Conducted nationwide, their studies target voters, consumers, customers and professionals. They manage recruiting, moderate, report findings rich



in insight, and offer thoughtful recommendations consistent with each study’s specific objectives. While we have been surveying our clients biennially for over fifteen years, hosting focus groups provides a unique experience to witness behavior in the moment: emotions, body language and word choices to explain

their experience in banking with us. In all aspects of life and business, it is very easy to not pay attention to or discover our “blind spots;” however, by doing so, it affords you and your team the opportunity to unlock new potential for your business!

The knowledge we learned from our focus group experience has shaped some immediate “call to action,” while other information is being shared with different departments for future strategy and consideration. We were also able to celebrate our wins and team success by having our clients validate the great work and service we offer.

Our experience working with Marty reminds me how important it is to ask for feedback and never stop asking. If you haven’t recently done something to garner client feedback, I highly encourage you to give it a try. Does your clients’ perception match the reality of your company’s brand? 🏠

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.



Parsing the Candidates' Economic Plan

By Mike Hicks

With a federal election looming, it is always a good time to attempt to parse the economic plans offered by candidates. This process demands a few caveats, beginning with the realization that the campaign staffers who compile policy

recommendations are not generally economists or budget experts. This campaign is exceptional for the dearth of recognized policy experts in either campaign.

The Clinton campaign does not list an economist or budget expert, while the Trump campaign has both an academic economist and well-known tax policy analyst, Stephan Moore. However, with the Obama team in place, there is a long list of available budget and tax analysts available to the Clinton campaign should she win.

The importance of economics and budget expertise in these spheres lies less in policy development than it does in vetting the fiscal reality of each proposal. The U.S. debt is close to \$19 trillion, while our GDP is closer to \$18 trillion (that is my mid-year estimate). The United States collected \$3.2 trillion in taxes in 2015, and is aiming at \$3.6 trillion this year. In light of this fiscal environment, the ability to make assessments of both the budget and fiscal impact of each proposal is critical.

In a world of sane policy action (presumably after the election) economists evaluate each individual element of the plan within a large economic model. The most common way to do this is to use existing estimates of policy or tax impacts of a tax cut from past experience, and can employ some range of impacts in these models. This would tell us how much, say, a \$100 billion tax cut would boost employment,

investments and wages. Fortunately, a lengthy body of economic research offers pretty good ranges of estimates for many of these. Sadly, real honesty about these estimates is rarely used in the budget debate. That brings us to the proposals of the individual candidates. I'll do my best at capturing the proposals which are fluid, and exposing them with at least a portion of the scrutiny that will await them from Congressional economic staffers in January.

On taxes, there is a clear contrast between the plans offered by Mr. Trump and Secretary Clinton. The Trump campaign offers tax cuts across the board in income,



with rates declining about 5 percent across each category. The Clinton campaign is focusing tax increases on the higher end of about 5 percent. On personal income taxes the story is likewise the same, with a cut proposed by Trump and an increase by Clinton.

Both campaigns argue for increased infrastructure spending as part of their plan, while Mr. Trump plans a large military spending increase. Neither campaign argues for entitlement review, such as changes to the retirement age, or Medicare eligibility. Indeed, both offer entitlement expansions, such as childcare and healthcare.

Both campaigns list a number of very general plans on a wide variety of disparate issues. The Trump



campaign lists the regulatory and trade reforms on which he based his early campaign. The Clinton campaign lists a well polled cornucopia of positions such as ending Alzheimer's and Autism, to stopping campus sexual assault and ending climate change.

In total, the policy dimensions of both campaigns reveal the ugly truth that this election isn't about policies, but personalities. Here's why.

Both sets of proposals are extraordinarily challenged from a budget standpoint. The Clinton proposals do not target economic growth, which might be why the campaign accepts the 2 percent forecast that I and most other economists predict for the coming decade. The vastly higher taxes on high earning households, combined with an increase in corporate taxes, will slow the economy. While some of the other proposals might conceivably boost labor force participation, this is a proposal that almost exclusively focuses on dividing the gains of a static economy, not focusing on growth.

In contrast, Mr. Trump simply exudes unreal optimism in the growth-inducing impact of tax and regulatory cuts. The tax cuts he proposes will cause the economy to grow, and the Obama administration has proposed a cut in corporate taxes. There is some long term growth focus, but it is clear this plan anticipates impacts of tax cuts on GDP growth and labor supply which have no basis in historical experience.

The most charitable thing one can conclude from Mr. Trump's trade plan is that it will only modestly damage the economy to make a point. One could say the same thing about such things as Mrs. Clinton's debt-free college plan or any other of the number of one-off issues she lists.

So, in the end, Mr. Trump proposes less taxes and more spending, and Secretary Clinton proposes more taxing and more spending. Neither plan will close the budget gap, but will lead to another decade of deficit spending and spiraling debt. This campaign isn't about policies, and whatever economic plan that emerges in January will be far different from the promises made before November. 🏠

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.

Save the Date | Holiday Open House

Join us as we kick off the holidays on Thursday, December 8th at Scioto Country Club, 2196 Riverside Drive for our annual Holiday Open House. Please note that we are switching it up this year and hosting at Scioto Country Club instead of the Olentangy branch location.

We'd love for you to stop by, grab an hors d'oeuvres and a drink, and chat with your banker and friends.

We will be in the Founders Ballroom from 4-7 p.m.

More information will be sent as we get closer to the event. No need to RSVP — just show up if you are able to make it. We hope to see you there!



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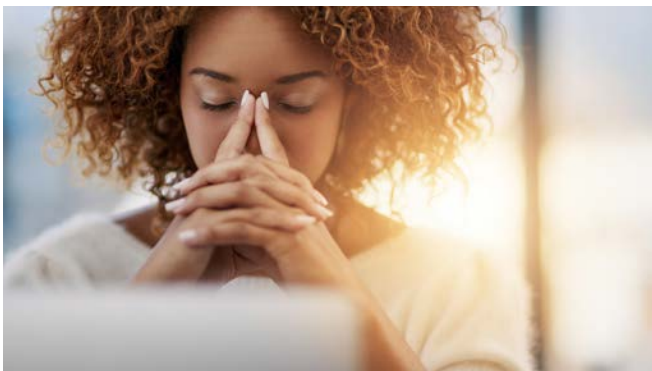


Creating Trust

By Lori Elliott

Banking is a competitive industry. Bankers are given sales and service goals. Making a profit is what keeps us in business.

A recent news story tells what happens when sales goals become everything. Many industries have made the news with similar tales – auto manufacturers, pharmaceutical companies, and telecommunications companies are a few. In this case, bankers were led to believe that selling to a client was more important



than helping the client. The pressure to reach sales goals overcame the employee's integrity. This story is the reason traditional selling has received a bad name and why the term "salesperson" has become such a negative stereotype.

Managing a sales force should mean leading a team that cares for customers. Earning every customer's trust is what brings in sales, not sales pressure. The more time spent on building solid trust-based relationships with customers, the more loyal they become and, consequently, the better the bottom line. This is a culture that should be displayed and endorsed at every level. The sales staff needs to know these expectations and be rewarded for putting a customer's real needs first. Sales managers

can never take their eyes away from the numbers, but they can put an emphasis on how they obtain them. They should not celebrate hitting goals without celebrating the relationships created along the way.

Leading a team that achieves their goals by acutally helping others achieve financial comfort will make them feel good about their company, their team, and themselves. This is the way we create not only loyal customers, but loyal employees. 🏠

Lori Elliott is a Retail Market Leader at First Merchants Bank. If you'd like to talk to Lori about creating trusting relationships, contact her at 614.408.0262 or by email at lelliott@firstmerchants.com.

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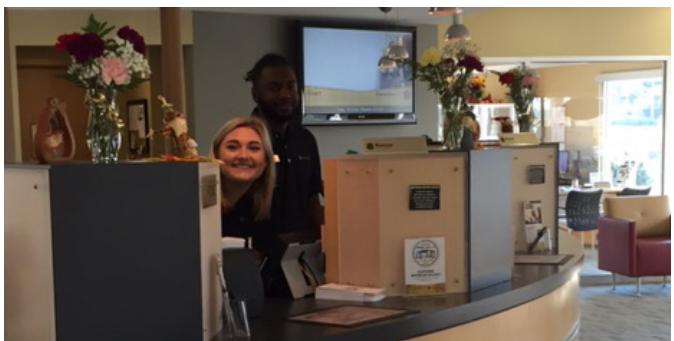
Ohio Banking Centers

Celebrating Customer Appreciation Day at the Branches

On Friday, September 23, all First Merchants Bank branches in Central Ohio held a Customer Appreciation Day. This was a day to celebrate our Central Ohio customers. These customers were invited to come into their local branch for food and fun. All the employees were thrilled to show their customers appreciation for banking with First Merchants. Whether a customer goes into a banking center every day or they had never been to one, everyone was invited to stop by!

The branches were fully decorated inside, and offered breakfast cakes or donuts in the morning, and sandwiches and chips in the afternoon. Each branch had a gift basket up for grabs with First Merchants merchandise and gift cards to local restaurants. These were raffled off at the end of the day.

If you stopped by during Customer Appreciation Day, thank you! We hope you enjoyed and appreciated it. If you didn't get a chance to stop by, no worries! There will be more Customer Appreciation Days to look forward to in the future.





Cristo Rey High School

Fourth Year Participating in Cristo Rey High School Work–Study Program

This is First Merchants Bank’s fourth year participating in the Cristo Rey Columbus High School work study program. Cristo Rey High School is a Catholic, college–preparatory high school with a professional work study program which empowers young men and women of all faiths, from economically–challenged families, to graduate from college and achieve a lifetime of success. Cristo Rey Columbus targets under–served youth in Central Ohio.

This year the Olentangy branch has the pleasure of hosting four students: two freshmen, one junior and one senior. Each student comes to First Merchants once a week and alternate on Fridays. While they are at the branch their, day focuses on assisting the Relationship Managers and Commercial Administrators as Junior Commercial Administrators.

The students will gain a valuable learning experience in the work–study program throughout the year at First Merchants, such as, how to behave in a professional work environment, handle tasks and projects assigned to them, and be mentored by various employees at the bank.

The professional work study program provides the students the opportunity to balance academic and work experiences, while also benefiting the companies they work for. Are you thinking about hiring an entry–level employee? Why not consider having a few students from Cristo Rey instead? The professional work study program benefits your company by providing a less expensive alternative to hiring an entry–level employee without the burden of administrative overhead. Your organization will reap the benefits of enthusiastic young workers and enormous satisfaction from positively impacting a young person’s life.

If you believe in providing a quality education to all youth and in future workforce development, contact Cristo Rey Columbus. John Petro would be more than happy to speak with you. His number is 614.223.9261 ext. 12005.



Pictured above: 2016–2017 Cristo Rey work study program students: Barrington, Alani, Kevin and Danielle



Accountability Leads to Success

By Todd Fulton

The word “accountability” evokes several emotional responses – from fear of judgement to the pride of empowerment. Unfortunately, many times in the business setting, accountability is either ignored or it is abused.

If it is ignored, it is done in the name of wanting a work environment that is friendly and accepting, where hope is the main strategy. We hope the work gets done, we hope that our weakest employees improve, we hope we don't have to confront others on their performance. What ends up happening, however, is that our company will migrate its culture to the lowest common denominator. Your best employees will become frustrated with having to carry the drag created by the lower performers and will either give up trying or move to a company that values their commitment to high performance.

If it is abused, we tend to expect perfection, demand that our employees hit unrealistic goals, setting them up to fail and blaming them when they do. This will immobilize your work force out of fear of failure and create a culture of mistrust.

A corporate culture of accountability, if nurtured correctly, can have a profound impact on the performance of your company, as well as the enjoyment and fulfillment both you and the employees can experience. This can be accomplished by:

1. Create a culture of accountability that starts at the top. Make sure employees understand what you expect from them, and that you're holding yourself to the same high standard. Follow through on your promises, own up to your mistakes, and give feedback, even when it isn't easy.

2. Make sure employees know they'll be accountable for their work by creating guidelines to monitor their productivity. Set goals that can be achieved, can be monitored, and can be reviewed.
3. Make sure you are present to support their work and remove or mitigate obstacles. Seek regular feedback from them on potential challenges and opportunities before they become a major problem.
4. Don't micro-manage – know that autonomy can be a real productive booster. Focus on the outcome, not the process. If you have to micro-manage, then you should just complete the task yourself.
5. Allow mistakes as well as outright failure, so long as it is not due to incompetence, insubordination, or a repetitive issue. Failure can be the best tutor for future success.
6. Provide regular, consistent and clear feedback – both the good and the bad. If you have clear expectations and measurements, then your feedback will be fact based and not a general feeling.
7. There should be clear consequences. Reward successes, provide coaching on failures or release them to their future employer. Doing nothing will not create a culture of accountability.

What you will see, when done right, is that people want accountability. They have clear expectations and a shared pride with their colleagues that they work for an organization that values their contribution. 🏠

Todd Fulton is a Relationship Manager at First Merchants Bank. If you'd like to discuss accountability with Todd, call him at 614.583.2170 or email him at tfulton@firstmerchants.com.



Be Present

By Martin Brady

How often are you with someone, but not really with them? I am talking about being in a perpetual state of distraction. I know people are reading who the author of this article is and are laughing. I am

terribly guilty about not being present and am trying to get better. This happens at home, work, in the car or just about anywhere. Not being present makes us rude and terribly unproductive. For example, you should be giving your undivided attention if someone comes into your office. Stop sending email or texts. Be present. If this continually happens, your co-workers will notice. Being constantly distracted will also hurt your work productivity and it will take you twice as long to finish what you need to get done.

How do we get better? First, you have to admit that there is a problem. The second part is harder. It involves the mother of all distractions: electronics. We need to be able to put them down and give it a break. This includes at meetings, meals and family time. Also, don't be on your phone in the car; it can wait. This is a big distraction and unnecessary. These issues are easy to talk about, but hard to implement.

I have made a new rule as a suggestion from a friend. When my family and I have the dinner together, the first one on their phone at dinner table has to clean up or prepare the next meal. When out with family friends, the first one to take out their phone pays for the meal. This should help your will.

Here are a few other tips to help stay present:

- Savor something you usually rush through each day. This could be a meal, saying goodnight to your kids, or anything that normally takes no time.
- Take time each day to do nothing. It can be for as little as five minutes. Put away the list and all the things that have to be done. This is harder than it sounds.
- Stop multi-tasking and do one thing at a time. It's better to have one thing done well than many things done poorly.
- Focus on the present. You and the people around you will notice all the benefits in a short amount of time. 🏠

Martin Brady is Chief Sales Officer in Ohio for First Merchants Bank. If you'd like to discuss being present with Martin, call him at 614.583.2052 or email him at mbrady@firstmerchants.com.





Limiting Valuation Discounts – Proposed Regulation

By Jim Keene

In August, the Treasury

Department issued proposed regulations limiting the use of valuation discounts for transfers of family businesses. These discounts for “lack of marketability” and

“minority interest” have long been an effective strategy for families to transfer business interest and to reduce federal estate taxes. Keep in mind that the federal estate tax exemption amount for married couples in 2016 is \$10.9 million. The top federal estate tax rate is 40%. Therefore, this regulation is significant, as it could certainly increase estate tax liability. At the same time, it doesn’t impact everyone.

In a nutshell, more overall wealth can be transferred to heirs free of estate taxes using discounted valuation

Department for many years. They finally have traction and it appears their mission will be accomplished soon. Hearings are scheduled for December 1, 2016, and regulations could be final by the end of the year. Once final, the opportunity for valuation discounts on family transfers disappears. Transfers prior to the regulation being adopted could still receive the valuation discounts.

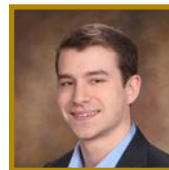
This leaves little time for a family to engage in transfer planning prior to any change. Don’t wait any longer if this change affects you. Consult your estate planning attorney and tax accountant to discuss what steps you should consider. 🏠

Jim Keene is a Vice President and Senior Trust Advisor for First Merchants Private Wealth Advisors. If you would like to connect with him, please call 765.962.7696 or email jkeene@firstmerchants.com.



strategies. Consider this example: under current law, a business owner could possibly pass \$15.5 million of value with only \$10.9 million being applied toward the estate tax exemption. This applies a 30% valuation discount to the \$15.5M.

Limiting valuation discounts for family-owned businesses has been a priority of the IRS and Treasury



Interest Rate Security

By Nick Lev

With recent discussion of the Federal Reserve raising interest rates before the end of the year, there has been increased focus towards securing a low interest rate for an extended period of time. One possibility is utilizing a

swap contract to fix the interest rate.

Swap contracts allow a borrower to hedge up to the entire amount of their loan at a fixed interest rate for up to ten years. The length of the arrangement provides interest rate certainty for longer terms than a typical fixed rate from a financial institution, which can usually be locked for five years. Under the arrangement, the borrower and the bank enter into a variable rate loan, but also enter into a fixed rate contract with a financial intermediary.



The swap contract allows the borrower to pay their preferred fixed rate while enabling the bank to receive its preferred variable rate. It produces an optimal situation for both parties.

Swap contracts do have a potential downside. If the swap is terminated prior to maturity, there is the possibility that the borrower will incur a swap breakage fee. This fee would be the difference between the original swap value, based on the original rate, and the current swap value, based on the current market replacement swap rate. These changes are completely contingent upon financial market conditions and are outside the control of the participants. However, if interest rates move substantially higher, breaking the contract could result in a cash payment to the borrower.

Swap contracts are fairly sophisticated and there are rules in place that limit the eligibility of potential contract participants. However, for term loans over \$1 million, a swap contract can be a great way to lock in a low rate now for the next ten years. 🏠

If you would like more information regarding swap contracts, please contact Nick Lev, Relationship Manager in the Ohio market, at First Merchants Bank, at 614.583.2070 or by email at nlev@firstmerchants.com.

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The options are endless with the First Merchants Mobile app:

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- Deposit checks
- See status of mobile deposits

Person to Person Payments (smartphone apps)

- Send money to another person
- Claim money received while on the go

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- View balances for multiple accounts
- View pending and recent transactions
- Search transactions by date, description or amount

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- Transfer money between your FMB accounts
- Schedule and pay bills to existing payees from your checking account

Locations

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- Search locations by zip code or city and state

Quick Access Option (smartphone apps)

- Users can create a passcode to sign in quickly and view accounts
- iPhone users can use Apple's Touch ID to sign in quickly and view accounts
- ID and password are required when making transfers, payments or deposits

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Karl Road:	1616 E. Dublin–Granville Road – 614.408.0410
Olentangy:	3650 Olentangy River Road – 614.583.2200
Reynoldsburg:	6950 E. Main Street – 614.408.0375
Sawmill:	5811 Sawmill Road – 614.408.0274




Renting verses Owning

By Greg Valentino

More and more young people are deciding not to purchase their first homes in their early to mid-twenties, as most of their counterparts did 10 to 15 years ago. There are multiple reasons why people decide to rent instead of own. First of all, they are not tied to a house. They can travel as much as they want to and not worry about mowing the lawn. They are not bound to their neighborhood. If they don't like where they live, they can move in a year. There is no worry about getting pre-approved for a mortgage to purchase a house. Renting may also be a better option because there are not many houses on the market right now. The inventory is very limited. It is a seller's market and the seller is trying to get as much out of the house as possible. Prices are rising.

I agree that many recent college graduates are not ready to purchase a house. I believe many of them need to get

established first and find out what their career path is before making a huge commitment. There is also a lack of assets to make a down payment. Waiting to save some money for a down payment is a good idea, but if you are thinking about purchasing a house, there are some pros to buying instead of renting right now.

Interest rates are on the rise and rates are at an all-time low. Likewise, rent is going up and right now Central Ohio has more luxury apartments than ever before. Homeowners also have lower tax bills because interest is accumulated on their mortgage and is tax deductible. Home ownership is fun—you can paint rooms the colors you want and renovate. You will also own an appreciating asset. Right now houses are appreciating at 3% each year. It is easier then ever to purchase a house with down payment assistance and first-time home buying assistance programs. 

If you are interested in home ownership or purchasing your second home, contact Greg Valentino NMLS# 743164, Mortgage Sales Manager in the Ohio market, at 614.583.2148.