BankNotes

Second Quarter News

Emotional Intelligence
A deeper understanding of EI could be a game changer for you and your team.

Trade War to Offset Tax Cut Benefits
Optimism over a strengthened economy might all come crashing down in a trade war.

Volunteering at Habitat for Humanity MidOhio
First Merchants teammates volunteered to help build a house in a community on the west side of Columbus.

Welcome Aboard!
Say hello to the newest members of the First Merchants family.

Quarter 2 of 2018 | firstmerchants.com | 614.583.2200

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

Emotional Intelligence

By Jennifer Griffith

Mary Manager is an extremely liked manager of a small team. She tends to find opportunity in everyday situations and is known for her kindness. Her manager feels lucky to have such a well–balanced team leader working by her side and regularly compliments her for her high levels of EI (Emotional Intelligence). Grateful for the high EI, Mary is not investing in this part of her leadership style, nor is her boss. Mary's starting to feel stuck in a rut and her engagement is beginning to decline.

Recently, a fantastic business coach encouraged me to invest some time in exploring what a deeper understanding of Emotional Intelligence could do for our team dynamic. If you're not familiar with this concept, Emotional Intelligence, sometimes referred to as Social Intelligence, is based on a four–part model that explores

the connection between what you see and what you do with yourself and others. There are 12 identified competencies that associate with each of the four models: Self–Awareness, Self–Management, Social Awareness, and Relationship Management.

If you're interested in exploring the concept, a quick search will highlight the parallels between job performance, measures of success and/or personal fulfillment. While IQ (Intelligence Quotient) has been measured for more than 100 years, EI may be nudging out IQ in terms of its ability to accurately predict professional success, especially in a team environment. A high EI is typically the game changer that can describe why two properly trained teammates may excel at different paces.

Let's revisit Mary Manager. Her kindness and likeability suggest strengths in empathy and a positive outlook. Both measures of strength inside the broader categories of Social Awareness and Self–Management. The feeling of getting stuck in a rut or pulling back on engagement suggests a gap in Self–Awareness and Relationship Management. Leaders who can develop strengths across the suite of competencies will likely be your future leaders and more successful adaptors of change.

If you're interested in further exploring the topic, my business coach recommended Emotional Intelligence 2.0 by Travis Bradberry and Jean Greaves. Since reading it and taking the EI appraisal, I've shared the book with several of my teammates to advance the conversation. It's been an interesting journey for me and perhaps there's more that you are now curious to learn about.

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

Trade War to Offset Tax Cut Benefits

By Mike Hicks

The first few months of 2018 have been action–packed in terms of economic policy. Major tax reform affecting both personal income and corporate taxes, a tightening of monetary policy in late March and what appears to be the first shot in a trade war. And, just when it seemed things might be settling down, we saw the return of volatility in stock prices. So, what does this mean for the Midwestern economy?

The tax cuts will have a reasonably predictable effect across the region, with the exception of the potential repatriation of $2 trillion in capital held by U.S. firms overseas. The combination income and corporate tax cuts will lead to both a sudden surge of consumption by households and a long–term boost to business investment. This should add at least $80 million to the Indiana economy and $120 million to the Ohio economy, the difference owing to the size of both states. However, the effect could be greater. Some of the $2 trillion of corporate profits may be repatriated to these states, and investment demand may be more pent up than it appears. It is easy to imagine a doubling of these estimates for both states.

The tax policy changes also appear to have bolstered confidence in the performance of the domestic economy. Swings in confidence are more difficult to place into an economic model, but the effect is positive. So, as we look back at tax reform, it was clearly a boost to the Midwestern economy. The effect is not huge, but it is large enough that the effects will be visible to more than just the folks who look at GDP and income data.

The Fed's tightening of monetary policy is earlier than I would have thought necessary, but my interpretation is calibrated by a belief that inflation is a very modest risk right now. Slow GDP growth is more concerning, so accepting some inflationary risk would seem more prudent than risk to growth. Clearly, the Fed does not share my interpretation, so I hope I am mistaken. In their defense, the cost of borrowing remains close to a 50–year record low, and interest rates themselves don't seem to play a role in dampening investment or new housing starts. I think the Fed's latest action will not have a visible effect on current growth rates.

The tax cuts, accompanied by modest interest rate hikes, would seem to accompany a faster rate of growth than we've seen in recent years. Labor markets are tight, so optimism over a strengthened economy would be the right emotion. Sadly, all of that can come crashing down in a trade war.

President Trump's plan to impose tariffs on steel and aluminum have the effect of immediately raising the price of both inputs. Both Indiana and Ohio are major goods–producing firms, with heavy export dependence. Higher prices on steel and aluminium will reduce the competitiveness of manufacturers of everything from transportation equipment to canned beer.

Indiana exported some $37 billion of aluminum and steel last year, while Ohio sold $50 billion abroad. Even half a percent reduction of exports for either state would erase all the gains of the tax cut.

By itself, the tariff on aluminium and steel is not large enough to shave half a percent off exports. It is large enough to dramatically reduce the benefits of the tax cuts. However, retaliation by both the World Trade Organization (WTO) and China can be more than enough to offset the gains of the tax cut. Thankfully, it will take years before the WTO reacts, but China feels no such burden of a world trade deal. Tariffs on U.S. goods will be targeted very carefully to impose the most pain on the United States both economically and politically.

China's targeting of tariffs on agricultural and finished goods will hit hardest in the Midwest. We should expect a reduction in demand for pork, poultry, soybeans, and corn. This will lead to both lower prices and less production across the region.

A slow burning trade war will shift employment to the places that produce protected products and reduce it in the places that are subject to tariffs. This reallocation of trade will almost certainly result in a net loss of economic activity, and by the end of 2019 will erase the benefits of the sweeping tax cuts that took place in 2018.

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.

Columbus Real Estate Update and Outlook

By Dan Apple

The metropolitan Columbus area real estate market continues to thrive in year eight of the United States economic expansion. Gross Domestic Product (GDP) growth has been mild at roughly 2% compared to the previous GDP growth of 3% – 4% in other economic expansions. The current economic expansion, while not as robust, has been sustained for a longer period than most of the previous economic expansions. The current data from the Columbus multi–family, office, and retail markets will be summarized for the current stage of each market in the recovery, expansion, hypersupply and recession cycle. The projected outlook for each market will also be reviewed based upon local forecasts.

The 2017 fourth quarter analysis from Black Creek Research Group indicates that the metropolitan Columbus multi–family market has now crossed over the first stage of hypersupply. The hypersupply quadrant represents the area where new construction of multi–family units causes increases in vacancy and rent growth declines. The 2017 fourth quarter apartment report for Columbus prepared by Reis, Inc. indicates that asking rents in Columbus increased by 0.4% to an average of $888. This extends the positive gains in rents to 32 consecutive quarters. New apartment construction activity will continue for the next two years. The 2018 outlook is for an absorption of 1,391 apartment units. Because the absorption does not exceed the 1,793 new apartment unites becoming available, the market vacancy rate is expected to rise from 4.4% to 4.6%. On an annualized basis, asking and effective rents are anticipated to climb by 2.7%.

The 2017 fourth quarter analysis from Black Creek Research Group indicates that the metropolitan Columbus office market is approaching the end of the expansion quadrant, which represents where rents still rise and vacancy is stable amid new construction levels. The Columbus office market has one stage left to expand before hitting the hypersupply quadrant. The fourth quarter 2017 office market report for Columbus prepared by Reis, Inc. indicates that rents increased by 0.3% to an average of $19.03 per square foot. This extends the gain in rental rates to 14 consecutive quarters. Landlords have been able to increase rents without increasing the concession packages. New office construction is expected to add 421,000 of new square feet in the next two years. The market vacancy rate will finish 2018 at 19.7% and will fall to 19.3% by the end of 2019. Asking rents are expected to rise by 1.4% to $19.58 per square foot.

The 2017 fourth quarter analysis from Black Creek Research Group indicates that the metropolitan Columbus retail market is at the end of the expansion quadrant, which represents where rents are still rising amid new construction levels. The Columbus retail market next stage will be in the hypersupply quadrant. The 2017 fourth quarter retail report for Columbus prepared by Reis, Inc. indicates that asking rents rose 0.4% to $13.52 per square foot. The retail market now has experienced five consecutive quarterly gains in asking rents. Market absorption totaled 165,000 square feet over the last 12 months. Between now and year–end 2019, developers are expected to deliver 108,000 square feet. The market vacancy will finish 2018 at 13.2% and will decline 1.2% through the end of 2019, with asking rents increased to $13.85 per square foot.

Total employment in the Columbus metropolitan area increased by 5,200 jobs during the fourth quarter of 2017, amounting to a growth rate of 0.5% according to Reis, Inc. Overall, the Columbus metropolitan area is well–

positioned to see higher rent growth and lower vacancy rates for both the office and retail markets in 2018. The office and retail markets still represent good opportunity for new construction and for investors of existing projects. The multi–family market is now in hypersupply, so rent growth will level off and vacancy rates will slowly increase.

Dan Apple is Manager, Commercial Banking, at First Merchants Bank. If you have any questions, please feel free to contact Dan directly by calling 614.408.0237 or by emailing him at dapple@firstmerchants.com.

Supporting the Community

Volunteering at Habitat for Humanity MidOhio

A group of teammates at First Merchants Bank participated in a Community Day on March 14 at Habitat for Humanity MidOhio. This team continued the work on building a house in a community on the west side of Columbus. Those who volunteered assisted the site contractor with scaffolding, wall support, stair building, and straw spreading.

From left to right: Elista Teeters, Savannah Norris–Jenkins, Brian Benadum, Becky Bond, Brittany Rambacher, Bob Main, and Brittany Barchalk

Seeking to put God's love into action, Habitat for Humanity MidOhio brings people together to inspire hope, build homes, empower families, and develop communities. Every partner family must perform a minimum of 200–250 hours of sweat equity. Every family assumes a no–interest, no–profit mortgage with payments based on family income.

Community Day at Community Kitchen in Columbus

Teammates at First Merchants Bank partcipated in a Community Day on February 15 at Community Kitchen. This team helped serve and prepare food during the breakfast and lunch shifts.

Community Kitchen serves people living on the southeast and east side of Columbus. Last year, Community Kitchen served 133,991 meals. 11,554 of those meals served were to children. First Merchants Bank has supported Community Kitchen for more than 10 years.

From left to right: Jacqueline Walls, Mike Mantor, Tiffany Whitner, and Josh Howell

How to Secure a Loan for Your Business

By Evan Nicholson

As we approach the ninth straight year of economic expansion since the "Great Recession," many of America's small and mid–sized business owners remain bullish on the state of the U.S. economy. According to JP Morgan's annual business leaders' outlook survey released in February, 89% of mid–sized businesses and 63% of small businesses are optimistic about the future U.S. economy.

As the U.S. economy continues to expand, many businesses are looking to grow through acquisitions, purchase new equipment, or move into a larger building. In order to fund these growth initiatives, businesses utilize bank debt by leveraging existing assets on the balance sheet to secure a commercial loan. But how do banks determine the credit–worthiness of a borrower? How do banks decide which loan applications get approved? Decision makers should have an understanding of the other side of the coin when seeking financing to help fund growth initiatives for their company.

Commercial lenders consider the "5 Cs" of credit when evaluating the credit–worthiness of a borrower. The 5 Cs, in no particular order, are as follows:

Character: Banks consider the character of a business, its leadership, or individuals providing guarantees on the loan.

Capacity: Capacity is an analysis of a business' historical cash flow, helping the bank determine the business' ability to service the proposed additional debt and pay as agreed.

Capital: Capital is the money you personally have invested into the business, or how much "skin in the game" you have. Banks like to see that key individuals have capital invested or have personal financial risk.

Collateral: Collateral gives the bank assurance that if the borrower defaults on the loan, the bank has additional assets it may repossess to mitigate any losses on the outstanding loan. Collateral is essentially a back–up in case the borrower is unable to repay the loan.

Conditions: Conditions refer to the terms of the loan itself and also the economic and industry conditions that may positively or negatively affect the borrower.

Evan Nicholson is an Associate Relationship Manager at First Merchants Bank. If you have any questions, please feel free to contact Evan directly by calling 614.583.2045 or by emailing him at enicholson@firstmerchants.com.

Credit Card Acceptance and Merchant Services

By Susan Adams

No matter where you are, online, in–store, or on the go, you should be able to process credit card payments easily and securely.

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, then the cost of the fraud will fall back on the business owner.

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 cards anywhere. Solutions for the counter include, EMV and NFC, (Near Field Communication, such as Apple Pay, PayPal, and Google Pay), contactless terminals, and Point of Sale systems.

Remember, 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. We also offer a PCI (Payment Card Industry) security compliance program to keep payment data protected while in use, at rest, and in transit.

Prepare for a secure credit card processing future. Receive a free credit card processing comparison today!

Susan Adams is a Merchant Services Sales Officer at First Merchants Bank. If you have any questions, please feel free to contact Susan directly by calling 614.583.2196 or by emailing her at sadams@firstmerchants.com.

Regulatory Reform: For Now, It's All About Confidence

By Bob Main

As is the case with so many issues today, a person's general perception of the current White House administration may color their opinion of the impact of recent regulatory reform on small business. To develop an informed opinion, it's important to first look at what impact regulation has on small business, what real reform has actually taken place, and if it's the kind of reform that truly helps small businesses.

Rules can provide direction to small businesses and have positive economic effects over time, saving small businesses from violations that could cost them, not only financially, but how they are viewed in their community. However, small business owners are forced to spend a substantial amount of time on regulations, with nearly half of them spending over 40 hours every year understanding and adhering to new and existing regulations. Rarely do small business owners have an employee specifically tasked with understanding new regulations, completing paperwork, and ensuring compliance to federal mandates. There is little evidence that regulation actually stimulates economic activity or that deregulation fuels it. But business owners agree that the cost of complying with rules diverts money that could be invested elsewhere.

Since President Trump took office, not many of the federal government's bundles of regularity rules have actually been eliminated or earmarked for elimination. The approach appears to be more centered around making it harder for federal agencies to block business expansion than on sweeping regulatory rollbacks. Within days of his inauguration, President Trump signed an executive order that included the stipulation that any new regulation must be offset by two regulations rolled back. Since January 2017, federal agencies have delayed, withdrawn, or made inactive nearly 1,600 planned regulatory actions.

So what has been the effect so far? Is quantifying the effects of regulatory reform as simple as tying them directly to the bottom line in the short term? Certainly not. "The notion that deregulation unleashes growth is virtually impossible to find in the data," said Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities, who served as the chief economic advisor to Vice President Biden. "What does matter, is the idea that confidence matters. If their expectations about the future are positive, then it does make a difference." Few would argue against business confidence increasing dramatically over the past year. This renewed confidence can be traced to the Trump Administration's regulatory rollbacks, not because deregulation is saving small businesses money, but because the Administration has instilled a faith in business owners that new regulations are not coming.

Due to reform, a generally improving economic outlook and recently approved tax cuts, economists are revising forecasts upward. Even before it became clear that Republicans would pass a major tax cut, capital spending had risen significantly, climbing at an annualized rate of 6.2% during the first three quarters of last year. Surveys of planned spending also show increases.

The chairman of the White House Council of Economic Advisors, Kevin Hassett, said in an interview that the Administration's freeze on new regulations, in particular, appeared to have buoyed confidence. Though he cautioned that it could take years of research to pin down the magnitude of the effects, he said deregulation was "the most plausible story" to explain why economic growth in 2017 had outstripped most forecasts. "Our view is, the 'no new regulations' piece has to be more powerful than we thought," he said.

Bob Main is a Relationship Manager at First Merchants Bank. If you have any questions, please feel free to contact Bob directly by calling 614.408.0505 or by emailing him at rmain@firstmerchants.com.

Are You One of First Merchants Preferred Employers?

By Anissa Barkley

As a member of a First Merchants Preferred Employer, your employees can take advantage of our "Best in Class" First Direct account.

First Merchants partners with many business owners looking for ways to provide additional benefits for their employees, without affecting their bottom line. Are you on of them? If so, we'd love to partner with your organization.

Our Workplace Banking program offers a checking account, with no minimum balance requirement, when a direct deposit is set up to a First Direct checking account. Saving accounts, loan discounts, bonus rates on certificates of deposit, free mobile and text banking, free

ATMs nationwide with MoneyPass, free enhanced MasterCard Debit Card with ID Theft Protection, and two OD/NSF fee items waived per rolling 12–month calendar year are all benefits that can be taken advantage of through this offer.

Our First Direct program comes to you. Your local bankers will provide you and your employees with the convenience of opening accounts on–site at no cost. First Merchants has helped many local employees put money back into their monthly budget, allowing them to feel less financial stress and more financial freedom. To take advantage of this program, contact your local banker today. Our goal is to help your business succeed financially!

Anissa Barkley is a Workplace Banking Representative at First Merchants Bank. If you have any questions, please feel free to contact Anissa directly by calling 614.583.2301 or by emailing her at abarkley@firstmerchants.com.

Welcome Aboard!

Joshua Riley
Relationship Manager

Joshua Riley joined the First Merchants family on April 2. He comes to First Merchants with 16 years of experience in the financial services industry and specializes in privately held family businesses.

His years of experience have provided the building blocks to understand complex financial transations and be truly customer–centric. Josh is excited to join First Merchants to be a part of the culture and people.

Josh is an Ohio University alumni. He has a wife, Katie, and son, Max. They are expecting their second son in June. They also have a cat named Izzy. Josh enjoys running, cycling, soccer, and hanging out with family, friends and neighbors.

Mike Kramer
Relationship Manager

Mike Kramer joined the First Merchants family on April 9. He comes to First Merchants with 23 years of experience, working extensively with privately–held businesses, providing them resources and solutions to achieve their financial goals. He prides himself on being a trusted advisor to the businesses he works with.

Mike is excited to join forces with First Merchants Bank, as it was ranked 4th in "America's Best Banks" by Forbes in their annual ranking of the country's 100 largest banks. He is well positioned to continue servicing the business community he has grown to know over his many years in the industry.

Mike lives in Powell with his wife Nicole and two children, Natalie and Ian. He enjoys spending his free time water skiing, bicycling, and RVing with his family.

YOU'RE INVITED

Wednesday, May 2 | 3650 Olentangy River Road
11:00 a.m. – 2:00 p.m.

Acceptable recyclable materials and donation items

The Salvation Army: Donate clothing of all types (women, men and children), furniture in good repair, household items and non–perishable food items.

Shred-it: Recycle and securely dispose of confidential items, tax returns and other paper products. There will be a five box limit on these materials.

Big Brothers Big Sisters: Donate gently–used basketballs, soccer balls, frisbees, art supplies, pool toys, goggles, camping gear (tents, sleeping bags, flashlights), stuffed animals and building blocks for Camp Oty'Okwa.

Community Computer Alliance: Recycle e-waste including PCs, servers, monitors, computer mice, cables and accessories, laptops, hard drives, gaming devices, keyboards, network devices, circuit boards, speakers, copiers, fax machines, video and audio equipment, desk phones, projection equipment, printers, toner and ink cartridges, security equipment, cameras, cell phones and smartphones. Items requiring disposal fee: CRT monitors - $15, large office copiers over 100 lbs. - $35, LCD/flat screen TVs - $5 and tube/projection TVs - $2 per inch. Please pay CCA at drop–off.

The Big Green Box: Recycle batteries including alkaline, NiCd, NiMh, lead, silver, mercury, lithium ion and other household batteries.

Schmidt's Sausage Truck (German Village, Ohio): **Stay afterwards to enjoy lunch at the Schmidt's Sausage Truck! If the weather is nice, there is seating on the patio.**

Questions? Contact Brittany Barchalk at 614.583.2040 or bbarchalk@firstmerchants.com

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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

Spring Seminar Recap

Thermostat Cultures with Jason Barger, Globally–Renowned Speaker

The First Merchants Bank Spring Seminar was held on Thursday, April 12 at the Grand Event Center in Grandview Yard. Jason Barger, globally–renowned speaker and author, spoke on Thermostat Cultures, how proactive people create inspired and engaged teams.

Jason engaged the audience and made them think about how difficult it is to stay focused on the things that really matter most to people as individuals, as a team, and in the working world.

Afterwards, guests stayed for hors d'oeuvres and drinks, while enjoying the nice weather on the patio. Thank you to everyone who attended!

Pictured above: Guests listening to Jason Barger speak