THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

May 2017

Student Debt and Defaults Soar as Colleges and Students Burden the Taxpayer

Over the last 10 years, U.S. student debt has ballooned by 164 percent, or almost five times the growth of the overall economy. These "loans," which now amount to $1.4 trillion, or $33,000 for each of the 44 million student borrowers, have enabled colleges to raise tuition at a rate almost three times that of overall consumer prices over the same 10-year period. But shed no tears for the student borrower for ultimately there are three avenues for the student to foist these loans on to U.S. taxpayer's shoulders.

First, students are increasingly defaulting on these loans. Over the past 10 years, the number of student loan defaults has skyrocketed 400% to 4.7 million and the number of loans more than 90 days delinquent has soared by 250%. Furthermore, nearly one in three borrowers who exited defaults through rehabilitation defaulted for a second time within 24 months, and more than 40% of borrowers defaulted again within three years.

Second, programs of loan forgiveness and income-driven payment plans have proliferated. In 2007, President Bush signed a bill that subsidized student loan borrowers that upon graduation took jobs in the public or non-profit sectors. Student loan debt left over after 10 years of payments would be forgiven. Beginning in 2014, President Obama capped borrowers' monthly payments at 10% of their income, extended the repayment period from 10 to as long as 25 years, and offered to forgive any remaining balances when that time is up. The Government Accountability Office calculated that the government will lose $21 for every $100 in student loans issued to someone who takes advantage of an income-driven repayment plan.

Third, a federal student loan can be discharged in the event that the federal loan was used toward the cost of enrollment at an institution that closed due to loss of accreditation, loss of a majority of academic programs, or because the school violated state or federal law.

With U.S. worker wages growing less than 3% annually, workers can ill-afford the $10,000 per worker burden of student debt which has underpinned college overspending and student profligacy. Ernie Goss.

MAINSTREET RESULTS

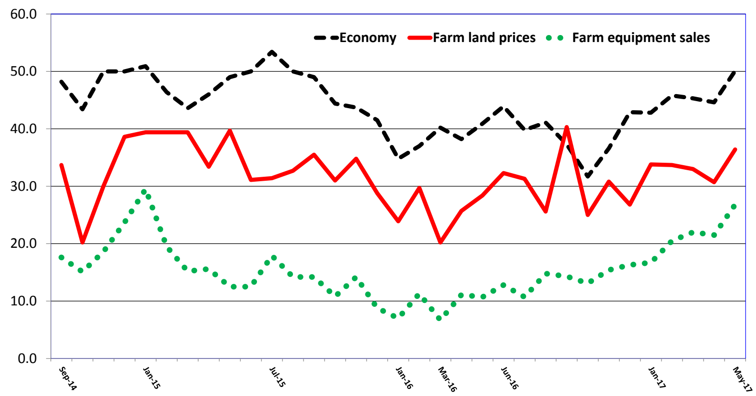
Rural Mainstreet Climbs to Highest Level in Almost Two Years
One-Fourth Bank CEOs Support June Fed Rate Hike

Table 1: The Mainstreet Economy	May 2016	Apr 2017	May 2017
Area Economic Index	40.9	44.6	50.1
Loan volume	77.9	81.6	74.5
Checking deposits	45.5	52.2	48.9
Certificate of deposits	40.9	44.6	38.9
Farm land prices	28.4	30.7	36.4
Farm equipment area sales	10.7	21.5	26.8
Home sales	61.6	56.8	63.6
Hiring in the area	43.2	57.8	60.1
Retail Business	36.0	40.2	48.9

Survey Results at a Glance:

- The overall index rose to highest level since July 2015.
- Almost one in four bank CEOs said the Federal Reserve should raise short-term interest rates at June meetings.
- Agriculture equipment-sales index jumped to its highest level in more than two years.
- Approximately 28.9 percent of bankers named rising regulatory costs as the biggest challenge to banking operations over the next 5 years.
- Approximately 11.1 percent of bankers reported farm foreclosures represented the greatest risk to banking operations, more than double the 4.5 percent who identified such foreclosures as the greatest risk in May 2016 survey.

Rural Mainstreet, Economic Indicators, Sept. 2014 – May 2017
(50.0 = growth neutral)



After dropping below growth neutral for 20 straight months, the Creighton University Rural Mainstreet Index moved above the 50.0 threshold for May according to the latest monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, which ranges between 0 and 100, climbed to 50.1 from 44.6 in April. May's reading was the highest recorded reading since July 2015. The last time the overall index was at or above growth neutral was August 2015.

"Stabilizing and slightly improving farm commodity prices helped push the overall index into a weak but above growth neutral for May," said Ernie Goss, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business. "The U.S. Department of Agriculture is projecting that net U.S. farm income will sink by 8.7 percent to $62.3 billion for 2017, the fourth consecutive year of declines after reaching a record high in 2013. This downward trend has weighted on our survey results for almost two years."

This month, and in May 2016, bank CEOs were asked to name the biggest economic challenge to their banking operations over the next five years. The largest share of bankers, or 28.9 percent, named rising regulatory costs as the top challenge or risk. This is almost the same percent as 2016. More than one in five, or 26.7 percent, detailed government subsidized competition from Farm Credit and credit unions as the greatest challenge, or almost double the 13.6 percent reported in May 2016.

More than one of 10 bankers, or 11.1 percent, reported that farm foreclosures represented the greatest risk to banking operations for the next five years, or more than double the 4.5 percent of bankers who identified such foreclosures as the greatest risk last year at this time.

In terms of risk to the rural economy, almost nine of 10 bankers, or 86.7 percent, think low agriculture commodity prices are the greatest threat to the rural economy. This is down slightly from the 90.9 percent who detailed the same risk in May 2016.

Farming and ranching: The farmland and ranchland-price index for May rose to 36.4 from April's frail 30.7. This is the 42nd straight month the index has languished below growth neutral 50.0, but is the highest recorded reading since September 2016.

The May farm equipment-sales index increased to 26.8 from 21.5 in April. This marks the 45th consecutive month the reading has fallen below growth neutral 50.0, and is the highest recorded reading since January 2015.

Banking: Borrowing by farmers was very strong for May as the loan-volume index fell to a strong 74.5 from last month's record 81.6. The checking-deposit index slumped to 48.9 from 52.2 in April, while the index for certificates of deposit and other savings instruments rose to 46.6 from 44.5in April.

Almost one in four bank CEOs, or 24.5 percent, said the Federal Reserve should increase short-term interest rates at its next meeting on June 14. On the other hand, approximately 22.2 percent want the Fed to keep rates at current levels.

Jeffrey Gerhart, president and chairman of the Bank of Newman Grove in Nebraska and former Chairman of the Independent Community Bankers of America, said "The Federal Reserve needs to raise interest rates. They've been too low far too long."

Hiring: The job gauge advanced to 60.1 from April's 57.8. Rural Mainstreet businesses not linked to agriculture increased hiring for the month at a solid pace.

Confidence: The confidence index, which reflects expectations for the economy six months out, expanded to a weak 46.6 from 45.6 in April indicating a continued pessimistic outlook among bankers. "Until agricultural commodity prices begin to trend higher, I expect banker's economic outlook to remain weak," said Goss.

Home and retail sales: Home sales moved higher for the Rural Mainstreet economy for May with a reading of 63.6 compared to April's 56.8. The May retail-sales index increased to 48.9 from April's 40.2. "Much like their urban counterparts, Rural Mainstreet retailers are experiencing weak sales," reported Goss
.

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included. The survey is supported by a grant from Security State Bank in Ansley, Neb.

This survey represents an early snapshot of the economy of rural agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

MAIN$TREET ON YOUR $TREET

COLORADO
Colorado's Rural Mainstreet Index (RMI) climbed to 48.4 from 41.8 in April. The farmland and ranchland-price index expanded to 35.2 from April's 29.6. Colorado's hiring index for May rose to 56.9 from April's 55.9.

ILLINOIS
The May RMI for Illinois increased to 49.2 from 41.3 in April. The farmland-price index fell to 29.4 from April's 30.5. The state's new-hiring index advanced to 55.1 from last month's 51.1.

IOWA
The May RMI for Iowa climbed to 49.4 from 39.1 in April. Iowa's farmland-price index for May slipped to 34.9 from 35.8 in May. Iowa's new-hiring index for May climbed to 60.8 from April's 51.5.

KANSAS
The Kansas RMI for May advanced to 48.8 from April's 41.0. The state's farmland-price index increased to 35.5 from 29.3 in April. The new-hiring index for Kansas jumped to 58.9 from 54.7 in April.

MINNESOTA
The May RMI for Minnesota jumped to 50.6 from April's 45.9. Minnesota's farmland-price index rose to 36.7 from 31.2 in April. The new-hiring index for the state climbed to a strong 66.9 from last month's 62.5. According to Pete Haddeland, CEO of the First National Bank in Mahnomen, "Planting is doing very well in our area,70 percent to 80 percent complete."

MISSOURI
The May RMI for Missouri fell to 53.7 from 62.0 in April. The farmland-price index improved slightly to 38.8 from April's 37.6. Missouri's new-hiring index declined to a strong 80.8 from 88.2 in April.

NEBRASKA
The Nebraska RMI for May jumped to 50.5 from 43.9 in April. The state's farmland-price index rose to 36.7 from April's 30.4. Nebraska's new-hiring index expanded to 66.4 from 59.3 in April.

NORTH DAKOTA
The North Dakota RMI for May rose to 45.7 from April's 25.3. The farmland-price index bounced higher to 33.4 from April's 23.0. North Dakota's new-hiring index rose to 45.1 from 29.5 in April.

SOUTH DAKOTA
The May RMI for South Dakota climbed to 47.3 from April's 41.9. The farmland-price index increased to 34.5 from April's 29.6. South Dakota's new-hiring index sank to 52.1 from April's 56.1.

WYOMING
The May RMI for Wyoming advanced to 47.5 from April's 36.5. The May farmland and ranchland-price index expanded to 34.7 from April's 27.5. Wyoming's new-hiring index climbed to 53.2 from 47.5 in April.

THE BULLISH NEWS

- The nation's unemployment fell to 4.3% for May, the lowest jobless rate in 16 years.

- The Case-Shiller home price index for the U.S. rose 5.8%, a 33-month high in March. A shortage of housing and low mortgage rates are expanding price bubbles across the nation.

THE BEARISH NEWS

- U.S. employers added 138,000 jobs in May, well below expectations of 180,000
- The share of the population age 16 and above in the labor force dropped to 62.7%.
- Average weekly wages for May rose to $901.97 which was 2.5% above May 2016. Even with a tight labor market, we are seeing sub-par wage growth.
- The U.S. trade deficit for April climbed 5.2% to $47.6 billion.

WHAT TO WATCH

- **FOMC Meeting on June 14:** . The Federal Reserve rate-setting committee meets next on June 14. The market indicates a 80%-90% likelihood of a ¼% funds rate increase. Yellen's comments on the Fed's $4.5 trillion of Treasury bonds and mortgage backed securities will be closely scrutinized.
- **Consumer Price Index on June 14**: The Bureau of Labor Statistics will release the inflation gauge for May. An annualized increase above 2.5% will be bearish for bonds with yields rising on long-term bonds such as the 10-year U.S. Treasury.
- **Yield on 10-Year US Treasury Bond**: This yield will rise as inflation advances. Current yield is 2.2% and still well below the historical average.

THE OUTLOOK

FROM GOSS:

- I expect **a Federal Reserve rate hike at the next FOMC meeting on June 14; **The FOMC to indicate that they will begin reducing its $4.5 trillion portfolio of U.S. Treasury bonds and mortgage backed securities. This will tend to put slight upward pressures on long-term U.S. interest rates.

OTHER FORECASTS:

- **Conference Board:** The US economy continues at a dismal 2 percent growth rate, well below pre-recession levels of 2.5 to 3 percent. This prolonged stagnation results from an unprecedented "perfect storm" of factors: a tight labor market and a prolonged period of slow revenue growth. What's worse, we see the possibility of another recession two to four years down the road. In the short term, businesses can expect to pay more for labor and to experience rising interest rates. Businesses considering investment should act now, and concentrate investments in automation and innovation to offset external negatives.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Connecticut is joining Illinois in a Puerto Rican debt spiral. With a $5.1 billion state budget deficit and three recent credit downgrades, the state's treasurer has recommended issuing "credit bonds" securitized by income tax revenues. The idiocy of this recommendation will only be exceeded by that of investors who buy these crippled bonds.

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This month's survey results will be released on the third Thursday of the month, May 18.