Spring | Summer 2017

first national bank

the intersection

Where Community and Opportunity Meet

A LETTER FROM **TIM PURMAN** – PRESIDENT/CEO

As we celebrate First National Bank's 110th year, we reflect on the leaders who thought an independent, community bank was necessary for Hartford and the surrounding communities. Thanks to the foresight of Otto P. Kissel, John G. Liver, and other civic and business leaders, First National Bank received federal banking charter #8671. It was issued by the Comptroller of the Currency on May 2, 1907, and at 8 a.m. the following Monday, on **May 6, 1907, the doors of First National Bank opened for business** with capital of $50,000.

Only five percent of community banks have been in business more than 100 years, and First National Bank is one of them.

For the last 110 years, First National Bank has served a crucial role in the Washington County economy, assisting consumers, farmers, start-ups, and small business owners in the area.

We believe so strongly in the value of an independent community bank because when you bank locally, your money is reinvested in the local economy, connecting us all and giving everyone a stake in the financial success of the community.

We don't think our success and longevity is happenstance. As a community bank, we have a symbiotic relationship with the local community — one cannot thrive without the other. We feel incredibly fortunate to be part of a community that has supported us as much as we have supported it.

While we certainly have grown and changed over the last 110 years — our capital is now $22.9 million — what hasn't changed is what you can expect from us. Simplicity, stability and loyalty.

It's simple to do business with us.
We want to be your partner.
We always treat you well.

We will always continue to be tremendously invested in giving back to the community — whether that's in the form of employee volunteer hours, serving on local boards, a financial contribution for a community project, or just our business philosophy of how we serve customers.

We are eternally grateful to the community members, customers, staff and shareholders who have supported us. We wouldn't be here without all of you. We're looking forward to the next 110.

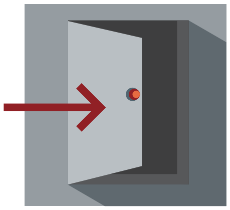
If you know someone who is not our customer, we encourage you to refer them to First National Bank so they too can experience the value of an independent community bank.

Thank you, again.

Rooted in Our Community and Nurturing Your Dreams for 110 Years

Watch our **website** and **Facebook page** for all of our **110th anniversary activities**!

Earn Too Much for a Roth IRA? *Try the Back Door!*



Background

Roth IRAs, created in 1997 as part of the Taxpayer Relief Act, represented an entirely new savings opportunity — the ability to make after-tax contributions that could, if certain conditions were met, grow entirely free of federal income taxes. These new savings vehicles were essentially the inverse of traditional IRAs, where you could make deductible contributions but distributions would be fully taxable. The law also allowed taxpayers to "convert" traditional IRAs to Roth IRAs by paying income taxes on the amount converted in the year of conversion.

Unfortunately, the law contained two provisions that limited the ability of high-income taxpayers to participate in the Roth revolution. First, the annual contributions an individual could make to a Roth IRA were reduced or eliminated if his or her income exceeded certain levels. Second, individuals with incomes of $100,000 or more, or whose tax filing status was married filing separately, were prohibited from converting a traditional IRA to a Roth IRA.

In 2005, however, Congress passed the Tax Increase Prevention and Reconciliation Act (TIPRA), which repealed the second barrier, allowing anyone to convert a traditional IRA to a Roth IRA — starting in 2010 — regardless of income level or marital status. But TIPRA did not repeal the provision that limited the ability to make annual Roth contributions based on income. The current limits are set forth in the chart below:

Phaseout ranges for determining ability to fund a Roth IRA in 2017*	
Single/head of household	$118,000-$133,000
Married filing jointly	$186,000-$196,000
Married filing separately	$0-$10,000

*Applies to modified adjusted gross income (MAGI)

Through the back door...

Repeal of the provisions limiting conversions created an obvious opportunity for high-income taxpayers who wanted to make annual Roth contributions but couldn't because of the income limits. Those taxpayers (who would also run afoul of similar income limits that prohibited them from making deductible contributions to traditional IRAs) could simply make nondeductible contributions to a traditional IRA and then immediately convert that traditional IRA to a Roth IRA — a "back door" Roth IRA.

The IRS is always at the front door...

For taxpayers who have no other traditional IRAs, establishment of the back-door Roth IRA is essentially tax free. Income tax is payable on the earnings, if any, that the traditional IRA generates until the Roth conversion is complete. However, assuming the contribution and conversion are done in tandem, the tax impact should be nominal. (The 10% penalty tax for distributions prior to age 59½ generally doesn't apply to taxable conversions.)

But if a taxpayer owns other traditional IRAs at the time of conversion, the tax calculation is a bit more complicated because of the so-called "IRA aggregation rule." When calculating the tax impact of a distribution (including a conversion) from any traditional IRA, all traditional and SEP/SIMPLE IRAs a taxpayer owns (other than inherited IRAs) must be aggregated and treated as a single IRA.

For example, assume Jillian creates a back-door Roth IRA in 2016 by making a $5,500 contribution to a traditional IRA and then converting that IRA to a Roth IRA. She also has another traditional IRA that contains deductible contributions and earnings worth $20,000. Her total traditional IRA balance prior to the conversion is therefore $25,500 ($20,000 taxable and $5,500 nontaxable).

She has a distribution (conversion) of $5,500: 78.4% of that distribution ($20,000/$25,500) is considered taxable ($4,313.73), and 21.6% of that distribution ($5,500/$25,500) is considered nontaxable ($1,186.27).

Note: These tax calculations can be complicated. Fortunately, the IRS has provided a worksheet (Form 8606) for calculating the taxable portion of a conversion.

There's also a side door...

Let's assume Jillian in the example above isn't thrilled about having to pay any income tax on the Roth conversion. Is there anything she can do about it?

One strategy to reduce or eliminate the conversion tax is to transfer the taxable amount in the traditional IRAs ($20,000 in our example) to an employer qualified plan like a 401(k) prior to establishing the back-door Roth IRA, leaving the traditional IRAs holding only after-tax dollars. Many 401(k) plans accept incoming rollovers. Check with your plan administrator.

For information specific to your personal financial situation and investment goals, please contact **Debra Mertz** *or* **Nate Schlotthauer** *of FNB Hartford Investment Services at* **262-673-8926**.

Forgivable Grant Money for your Down Payment

According to the National Association of Realtors 2017 *Aspiring Home Buyers Profile*, there's a large gap between what first-time homebuyers, especially younger ones, think they need for a down payment, and what they actually need. Almost 40 percent of non-homeowners believe they need 20 percent down for a down payment, but the reality is that the average down payment on purchase mortgages in 2016 was 11 percent, and the average down payment for first-time homebuyers was just under eight percent.[1] Many banks, including First National Bank, offer loan programs with as little as five percent down.

If you need help coming up with your down payment, inquire about two grant programs that First National Bank administers to help customers with their down payment and closing costs. The **Downpayment Plus® Program**[2] gives eligible borrowers up to $6,000 in a forgivable grant paid on behalf of the borrower at the time of closing. The **Down Payment Assistance Loan (DPA) program**[3] provides eligible homebuyers with a forgivable loan up to $5,000. These programs can be combined with other down payment assistance programs available through the state or HUD, or with personal down payment sources. Not all lenders offer these programs.

Don't let your perception interfere with reality! Your dream of owning a home may be closer than you realize. Our consumer lenders are happy to meet with you, learn about your needs and provide a personalized recommendation. Make an appointment today!

[1] National Association of Realtors. *Aspiring Home Buyers Profile, February 2017.* Available from www.nar.realtor/reports/aspiring-home-buyers-profile.

[2] "Downpayment Plus" is a registered trademark of and a program offered from the Federal Home Loan Bank of Chicago. Restrictions apply. Please visit the Federal Home Loan Bank of Chicago's website for complete requirements.

[3] Down Payment Assistance Loan program is offered from the Department of Housing and Urban Development, funded by the Home Consortium. Restrictions apply. Please see the Home Consortium website at www.homeconsortium.com for complete requirements.

The Community Investor CD

In honor of our 110-year anniversary, we're offering the high-yield, short-term Community Investor CD for a limited time. And you don't have to jump through hoops to get it.

Earn an **annual percentage yield (APY) of 1.30%** for 19 months with a minimum deposit of $2,500. You can even **request a one-time rate bump** if rates increase during the initial term.

- $2,500 minimum deposit, not to exceed $250,000 per depositor.
- If rates increase during the initial term, customers may request a one-time rate increase. If no rate increase is requested, APY will remain at 1.30% until maturity.
- You must have or establish a checking account relationship to qualify ($100 minimum initial deposit required to open a checking account).
- Interest will either be compounded or paid to a checking account at FNB.
- Early withdrawals subject to penalty.
- Business and municipal money excluded.

For more information, or to open an account, please contact a Personal Banker at any of our locations or email us at **fnb@fnb-hartford.com**.

MORTGAGE PROGRAMS

2017: Strong Home Sales Expected, New Construction Picks Up

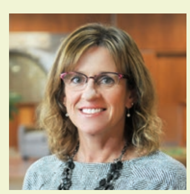
According to the Wisconsin Realtors Association (WRA) *January 2017 Home Sales Report*, 2016 was a record-setting year for home sales. Positive economic trends, including low interest rates combined with a state-wide unemployment rate down around 4 percent, are poised to support strong sales in 2017, as well. At this point, the biggest moderating influence on 2017 home sales is existing home inventory, which continues to be tight. The supply dropped to just 4.3 months, whereas a balanced market is considered to have six months of supply. Anything lower than six months is considered to be a seller's market. With high demand and low inventory, home prices continued to rise in January, with the median sales price increasing 6.4 percent over the last 12 months to $158,000.[1]

As a result of the low inventory, the new home construction industry is seeing a boost. In 2016, the metro Milwaukee area had a 15 percent increase in permits for new home construction over the previous year, with more homes built for the first time since 2008.[2]

If you want to live in a certain community or school district and aren't finding what you're looking for, you may want to consider building.

Whether you're buying or building, let our experienced consumer lenders become your trusted advisor to help you navigate the mortgage or construction loan process.

Learn more about our mortgage and construction loan options on our website, or contact one of our consumer lenders today!



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[1] Wisconsin Realtors Association. *January 2017 Home Sales Report, February 20, 2017.* Available at www.wra.org/HSRJan2017/.

[2] BizTimes. *Housing Starts Increase in Milwaukee, January 25, 2017.* Available at www.biztimes.com/2017/industries/construction/housing-starts-increase-in-milwaukee-area/.

Summer *banking hours*

Memorial Day (Monday, May 29) — **CLOSED**
July 4th (Tuesday, July 4) — **CLOSED**
Labor Day (Monday, September, 4) — **CLOSED**

Have a wonderful and warm summer!

Why We All Need *a Password Manager*

We need a password for everything these days — bank accounts, utilities, health insurance, online shopping accounts, social media — the list goes on. Some estimates put the number of online accounts for the average user at 90! All of these online accounts and passwords become a liability to your online security. Why? Because according to a 2015 survey conducted by TeleSign①, a mobile identity company, on average, only six unique passwords are used to guard 24 online accounts, and 54 percent of people use five or fewer passwords across their entire online life.

Reusing passwords creates a domino effect. A breach at one company gives hackers the opportunity to gain access to the rest of our online accounts, further opening us up to identity theft, fraud and extortion.

How do we create strong passwords? They must be unique, long, a combination of upper and lowercase letters, numbers and special characters, and not easily guessable.

If we use this criteria for all 90 of our passwords, there's no way we're going to remember them.

Enter a password manager, a software application that helps users store and organize passwords. Password managers typically encrypt stored passwords, requiring the user to create only one strong master password. The master password becomes the only password the user needs to remember because it grants access to the user's entire password database.

Some password managers store passwords on the user's computer (offline password managers), some store the data in the cloud (online password managers where the data is stored on a service provider's server but handled by the software running on the user's machine), and others are web-based (online password managers where passwords are viewed and copied to/from a provider's website). Many password managers provide additional features such as form filling and password generation.

Once you install a password manager, you can teach it all your existing passwords and update weak or duplicate passwords. Remember, you can change these weak and duplicate passwords to things that are long and hard to remember, because you don't have to remember them! The password manager will remember them for you.

Using a password manager is super simple. You will visit a website like normal, but instead of logging into that site, you'll log into your password manager. The password manager automatically fills in the appropriate login information on the website. If you're creating a new account on a website, the password manager will automatically generate a secure and random password for you and remember it. Many password managers sync across multiple devices and operating systems.

Protecting yourself online is one of the most important things you can do for yourself today to guard against identity theft, fraud, extortion, malware, phishing and pharming. We highly recommend you start using a password manager today!

① Telesign, *TeleSign Consumer Account Security Report, June 3, 2015*. Available from www.telesign.com/resources/research-and-reports/telesign-consumer-account-security-report/

PC Magazine has an excellent evaluation of the best paid password managers and the best free password managers. ***You can view them here:***

The Best Password Managers of 2017: http://www.pcmag.com/article2/0,2817,2407168,00.asp
The Best Free Password Managers of 2017: http://www.pcmag.com/article2/0,2817,2475964,00.asp

Spring/Summer *recipe*

Strawberry Cream Cheese Ice Box Cake

*This recipe comes from **Jeanette Weber**, who was a teller in our Hartford branch for 35 years until she retired in 2010. Jeanette said she loved working at First National Bank and considered customers "like family." She said those 35 years went by in the blink of an eye! Jeanette is sharing this recipe from a dear friend.*

Ingredients:

2 lbs strawberries
2 sleeves graham crackers
1-8 oz package cream cheese (room temperature)
1-14 oz can sweetened condensed milk
2-3.4 oz pkgs of instant cheesecake-flavored pudding
3 cups milk
1-12 oz container whipped topping

Wash strawberries, cut tops off and slice. Set aside. Line the bottom of a 13x9 baking dish with the graham crackers. Set aside. Combine the cream cheese and sweetened condensed milk in a large bowl and beat with a mixer until smooth and creamy. Add the pudding and milk and mix on low for 4-5 minutes until the mixture thickens. Fold in two cups of whipped topping until smooth.

Pour half of the cream cheese mixture over the graham crackers. Arrange a single layer of berries over the cream cheese mixture. Top strawberries with another layer of graham crackers and then cover with the remaining cream cheese mixture. Top cream cheese mixture with the remaining berries. Chill for 6-8 hours.

When ready to serve, cover with remaining whipped topping. Crush remaining graham crackers and sprinkle crumbs over whipped topping. Garnish with any remaining berries if you desire.