

**This Issue:**

- 1-2 Implement Best Security Practices with your Customers in Mind**
- 3 Warning: Compliance Road Blocks Ahead**
- 4 Employee Spotlight Bill Salmonson**
- 5 USource Human Resources Management**
- 6 Regional Report Todd Holzwarth**
- 7 Payment Trends and Risk Management**

## Implement Best Security Practices with your Customers in Mind

UBB IT Department

In today's world where data breaches are becoming more and more commonplace, it's imperative that you strive to improve your bank's security practices for yourselves and for your customers. A strong information security program starts with documenting your company's security policies and best practices.

### Bill Rosacker



*A Note from the President*

The sun is shining and the flowers are beginning to bloom here in Minnesota, which means summer is right around the corner! I'm sure many of you feel our relief of seeing green grass and temperatures above freezing again.

This past April marked the kickoff of our event season. We recently wrapped up another successful ALMEdge asset liability conference. This event has grown tremendously over the past 12 years and has proven to be a great opportunity for banker's to network and stay up-to-date with asset liability trends that are affecting their balance sheets. This year's conference was attended by well over 200 bankers, representing eight different states. My congratulations to Jim Nowak and Ben Eskierka of UBB Securities, as well as the rest of the UBB team who made this event a success.

This is an especially exciting year for us as we celebrate the 40th anniversary of United Bankers' Bank. From our early beginnings in 1975 when we started out as the nation's first bankers' bank, with just a handful of employees serving Minnesota banks, to where we are today, with over 110 employees and serving community banks in 12 different states, our focus has remained constant throughout our 40 years of existence; the success of community banking. The last four decades in the banking industry have been filled with an array of ups and downs, booms and recessions, and through it all we've used these experiences to learn, improve, and build UBB into what it is today.

This momentous anniversary would not be possible without the trust and commitment of our customers, as well as our experienced and talented staff. As we look ahead to the next forty years and beyond, I want to say what a privilege it is for all of us here at United Bankers' Bank to serve you and to be a dedicated ally of community banking for all of these years.

We have a lot of exciting things planned throughout the year and look forward to seeing you at the state association's conventions and meetings, as well as at our UBB regional events.

Best wishes for a great summer, and as always, UBB is **First for Your Success.**



By taking the time to document your company's security best practices it:

- Sends the message you take security seriously.
- Can be beneficial in case of attack when determining liability.
- Is helpful for new employees learning procedures and for existing employees to reference.
- Helps to create flawless processes, which in turn improves security.

What should you include in your best practices documentation? Start with the topics listed below:

### Security

List the vendors with whom you work with that receive confidential information from you and document how this information is handled by the vendor. Document the physical security of your offices. Who has access to your offices and how do they gain entry? How are your documents protected? How is information stored and destroyed? Document the type of data you use and how long you need the data in your possession. Reference your strong password policy and encryption standards for wireless networks.



### Training

Your best practices documentation should include employee security training plans (e.g., how to recognize malware and phishing scams, how to protect workplace documents). It's imperative that you require employees to take security awareness training and be clear on what they can and cannot do on their workstations.

### Patch Management

Keep your system patches and upgrades up to date. Document your patch management procedures and update schedules.

### Incident Response

Create an Incident Response procedure. Assume a breach is inevitable and document the procedure you will use in the event of an incident.

Once you have your best practices documented, make a point to regularly review them for changes. Investing time and resources into your security program will protect you and your customers.

## Ways to Prevent and Detect Wire Fraud

### 1. Do not post wiring instructions and account numbers to your bank's website.

Though it appears that you're providing your customers with a time saving convenience, in reality, by making this sensitive information public, you're supplying potential criminals with the information needed to initiate a fraudulent payment.

### 2. Conduct a manual review of all wire requests.

This is the most basic fraud prevention strategy. By manually reviewing and looking up details like passwords and account numbers, the chances of your institution detecting a fraudulent transaction are increased.

### 3. Behavior based prevention solutions.

This solution models the behavior associated with wire payments and then compares all activity to the established baseline of normal behavior to detect unusual or unexpected activities that could be indicators of fraud.

Combating wire fraud requires a proactive and multi-pronged approach. Relying on one control or set of controls to stop all wire fraud attempts is unrealistic. Just as a fraudster's capabilities continue to evolve, community banks must continually adapt and readapt to the threat of wire fraud.

# WARNING!!!

## Compliance Road Blocks Ahead

August is fast approaching and before you know it, the deadline to implement the CFPB's new RESPA-TILA Integrated Mortgage rule (the "Rule") will be here. As in 2014 when the CFPB added the ATR/QM standards, this new Rule will create road blocks banks will once again need to navigate in order to process mortgage loans. While banks are no strangers to new regulation changes, some compliance road blocks are more daunting than others. The first question to ask is, "Where do I Start?" The following is a map to avoid some of the road blocks with the new Rule.

### So where *do* banks start? (May)

Your biggest road block will be the understanding of the Rule, so start by gathering your resources. Read the manuals put out by the CFPB, attend webinars, and most importantly, look to your third party compliance support vendors for guidance. If you have done that, you will know that, in general, the new Integrated Disclosure Rule will combine Reg Z's Initial Truth in Lending disclosure with RESPA's Good Faith Estimate, which will now be called the "Loan Estimate." The new Rule also takes Reg Z's Final Truth in Lending Disclosure and combines it with RESPA's HUD Settlement Statement to form what is called the "Loan Closing Disclosure." While the combining of the disclosures is huge, there are other details within the Rule which are equally important. Banks need to pay particular attention to definitions such as application and business day, and the types of loans covered in the new Rule have expanded. In addition, the CFPB has redefined the process your

institution will use to categorize third party service provider fees into their appropriate tolerance categories if your institution provides a shopping list (a list of third party service providers) to your borrowers.

### Implementation (June)

Your second hazard will be to ensure you understand what areas of the bank will be affected by these changes. The bank's implementation plan should not only incorporate the lending department, but also compliance, audit, training, and possibly IT. Lending policies, processes and procedures will need to be re-written; compliance and audit plans will need updating. You will also need to develop a training program to

ensure your employees know how to complete the forms correctly. Finally, IT will need to work with your vendors to ensure the correct model forms will be available when it's time to go live with the new Rule.

### Testing (July)

Your journey is almost complete as you approach your final speed bump – testing! Consider creating mock loans in as many scenarios you can think of to produce and review the new disclosures. Although a bit time-consuming, testing is necessary to

determine whether or not your bank has fully grasped all of the requirements in the new Rule.

As August approaches, so completes your journey of navigating another CFPB regulation change. Congratulate yourself and your team for a "job well done" as the road to providing mortgage loans is wide open once again.



For more information on Compliance Services, contact Kassia Holt at [952-886-9548](tel:952-886-9548) or [Kassia.Holt@ubb.com](mailto:Kassia.Holt@ubb.com).

**United Bankers' Bank  
Call Report (unaudited)  
3/31/2015**

**Balance Sheet (000's)**

**Assets:**

Cash and Due from Banks	\$ 119,929
Investments	\$ 251,220
Fed Funds Sold & Securities Purchased Under Agreement to Resell	\$ 37,424
Loans	
Outstanding	\$ 379,017
Loss Reserve	\$ (7,695)
Other Assets	\$ 25,948
<b>TOTAL ASSETS</b>	<b>\$ 805,843</b>

**Liabilities and Capital:**

Deposits	\$ 680,500
Fed Funds Purchased	\$ 35,301
Other Liabilities	\$ 15,229
Equity Capital	\$ 74,813
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>\$805,843</b>

**INCOME STATEMENT (YTD)**

Interest Income	\$ 5,006
Interest Expense	\$ 488
Net Interest Income	\$ 4,518
Loss Provision	\$ (500)
Net Interest Income (After Provision)	\$ 5,018
Other Income	\$ 4,007
Total Income	\$ 9,025
Operating Expenses	\$ 6,198
Securities Gains (Losses)	\$ -
Net Income Before Taxes	\$ 2,827
Tax	\$ 1,059
<b>NET INCOME</b>	<b>\$ 1,768</b>



**Family Members:** My wife Tracy and son Eric. Tracy and I have been married for 27 years and Eric is a sophomore at Morningside College in Sioux City, IA.

**Pets:** None.

**Played most on iPod:** I enjoy listening to country music and classic rock.

**Interests:** Hunting, playing golf, and attending Eric's football and baseball games.

**If I could live anywhere in the world, I would live:** In a warm climate by the ocean.

**If I could have one super power (besides flying) it would be:** Extreme intelligence so I could discover a cure for cancer.

**Many people don't know that I:** Was born and raised in Kansas City.

**If I was not working in banking I would:** Be a teacher and high school football coach.

**I started working at UBB in:** May 2007.

**My favorite part of working for UBB is:** Working with community bankers and helping them provide loans to their best customers.

**First For Your Success means:** Providing quality products and superior service to our customers.



Bill after a successful pheasant hunt.



Bill with his family after Eric's football game.



Bill and Tracy.



Bill and Eric in Clearwater, FL.

# UBB•USource® An Emerging Trend

The number of employers ditching the traditional performance review process, which provides a numerical ranking of employees, has increased from 4 percent in 2012 to 12 percent in 2014, according to a Corporate Executive Board survey of Fortune 1,000 companies. The shift from the traditional numerical ranking system to a qualitative approach is occurring as companies recognize that the old way just doesn't work anymore.

About 65 percent of employees say the performance review process is not relevant to their jobs. 95 percent of managers say they aren't satisfied with their organizations' performance management processes, and 90 percent of HR professionals don't believe their companies' review process provides accurate information. I recommend the book, *"Why Appraisals Backfire, and What to Do*

*Instead"*, by Tom Coens and Mary Jenkins. They describe how many of the underlying assumptions employers have regarding the performance appraisal process are simply false. So why do so many of us continue to use something that doesn't work?

Ask yourself, "What impact does the annual performance review process have on employees? Is it motivating? What impact does the process have on bank performance"?

Some employers are transitioning to more frequent, collaborative discussions with employees regarding how to achieve their goals. The discussion is more forward-thinking instead of dwelling on

past mistakes, and the emphasis is on coaching and planning rather than on judging and ranking employees. Is it time for a change at your bank?



## Register for USource Webinars

USource webinars are **FREE** for USource members and only \$75 for non-members. Each webinar starts at 10:00 am and lasts 45 to 60 minutes. The links to register for the following webinars can be found on [www.UBB.com](http://www.UBB.com) under Events.

### May 21, 2015: *Perks to Retain Talent*

Attracting and retaining the best talent takes more than giving workers a paycheck. We will discuss flexible work arrangements that can blend well in any industry, as well as new and innovative employee perks for small community banks.

### June 18, 2015: *Writing Job Descriptions*

Having up-to-date job descriptions for every employee is important for clear communication of the job's responsibilities

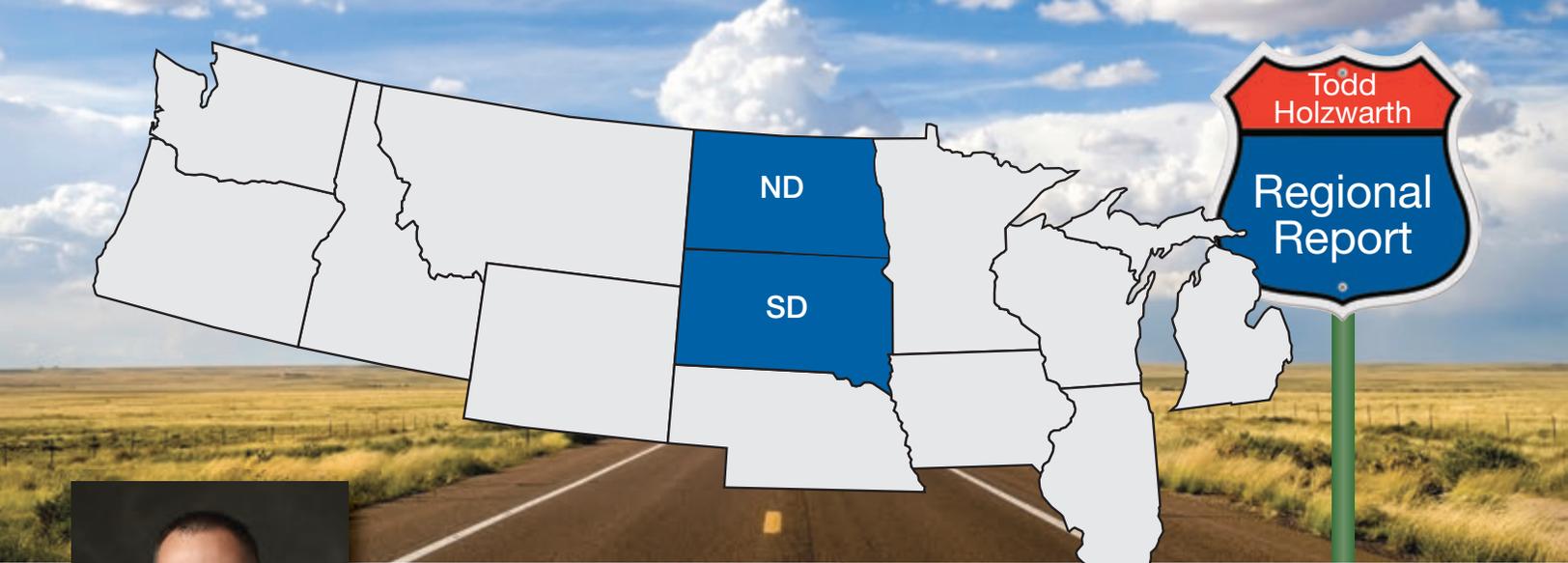
when recruiting new employees and for the development of current employees. We will discuss adding 3 – 5 competencies to job descriptions which are necessary for success in the position.

### July 16, 2015: *Succession and Employment Development Plan*

There is no such thing as a quick and easy succession plan. A succession plan is always in process and is never complete; they need to change with employees and with the bank's strategic plan. But, this webinar will help you jump start the development of a written plan.



If you have questions or would like more information about the USource Human Resource Management program, please email us at [usource@ubb.com](mailto:usource@ubb.com) or call us at **866-394-1984**.



**Direct:** 605-323-0216  
Todd.Holzwarth@ubb.com

**Todd Holzwarth**

Marketing,  
VP Correspondent Banking Officer

5024 S. Bur Oak Place, Suite 208  
Sioux Falls, SD

**Born:** Freeman, SD

**Family:** My wife Jacinta (“Jaci”), who is a teacher in the Parker School District and former girls’ basketball coach. She is from Reliance, South Dakota and is also a Black Hills State University graduate. My daughter Haley (19) is a freshman at South Dakota School of Mines & Technology in Rapid City, SD where she is studying Civil Engineering. My daughter Josie (15) is a freshman at Parker High School and my son Landri (11) is a 5th grader at Parker Elementary School.

**Experience:** I’ve worked exclusively in the Finance industry for the past 19 years, much of which was with community banks. I’ve also worked with securities and insurance in the past. I’ve been working at United Bankers’ Bank since 2008.

**Attended College:**

I received my BS from Black Hills State University in Spearfish, SD. Subsequently, I completed my MBA at the University of South Dakota in Vermillion, SD.

**Majored in:**

Business with a minor in Economics



**Best part of working in North & South Dakota:**

South Dakota has always been my home, while North Dakota is actually where my career in banking began working for Bank of the West (formerly known as Community First Bank). Both states have similarities that I appreciate; people are genuinely friendly and welcoming, their work ethic is very strong, they’re always ready to help someone in need, and the quality of life is exceptional. I really like the seasons too, except for that one between Fall and Spring.



*Todd and Jaci*



*Josie, Landri, and Haley at Christmas.*



*The Holzwarth's at church.*

# Payments Trends and Risk Management

After reviewing the most recent Federal Reserve Payments Study (published in 2013), we found some interesting facts worth sharing:

- Card and ACH payments made up **85% of all non-cash payments** by number, and 67% of total value.
- **2/3 of consumer and business payments** were made with payments cards.
- Transaction volume of **prepaid cards grew at a rate of 15.8%**.
- Check payments have switched from a predominantly consumer payments tool to more of a small business medium, but check volumes of all sorts continue to decline – **down to less than half their volume in 2003**.

## Why should we care about this?

We care for two main reasons – first, we want to **keep our banks in the payments stream**. There are a lot of competitors out there for your customers' payments activity. You want to keep that aspect of the client-bank relationship healthy and alive. Payments activity is the lifeblood of the customer relationship and transaction fees are an important source of non-interest income.

There is also value in the data about where, when, how, and why your customers transact. As processing systems become more intelligent and can “digest” transaction information, there are sure to be new financial tools that customers will be willing to pay for to help them budget, identify their spending patterns, and to better manage their finances.

The other reason we should care has to do with **risk management**. The Federal Reserve Bank recently published a paper, “*Strategies for Improving the U.S. Payments System*”, about the changing payments landscape and how they want to move payments faster and closer to

“real time”. With payments accelerating and funds settling out of customer accounts faster, it is important to consider how risks are evaluated and mitigated, especially given the statistics about the switch to payment cards and ACH.

## How is UBB helping to protect our merchants, cardholders, and your bank?

- We have invested in Enhanced Risk Management for merchants from our processor, FIS. It includes excessive credit edits and excessive transaction edits. These edits enable us to systematically evaluate individual transactions within merchant deposits to determine if preset thresholds are violated. Daily monitoring of merchant batches, strategic BIN blocks, monitoring of authorization reversals, and reviewing for hierarchy variance errors are included as well. This helps to detect problems early, before they become large.
- Our merchant program features card terminals that accept EMV “smart card” chip and ApplePay tokenization security, protecting the merchant and the cardholder.
- Our merchant service includes automatic PCI testing and breach insurance.
  - We offer business cardholders Visa Checkout, a simple and secure solution for electronic or online payments – the cardholder can speed through checkout with just a user name and password – no card numbers or addresses are stored on a device or intercepted when payments are made.



The payments universe continues to change in a very dynamic way and UBB is constantly investing in ways to protect your cardholders, your merchants, and your bank. **We are First for Your Success.**



United Bankers' Bank  
 Suite 1500  
 1650 West 82nd Street  
 Bloomington, MN 55431-1467

.....  
 If you have questions about our products and services, please call us at 1-800-752-8140.  
 www.ubb.com • Member FDIC



**Stay compliant, while increasing productivity and saving money.**

UBB Compliance Services offers an array of services that are designed specifically for community banks, and are supported by experienced, industry-trained compliance experts. Regardless of the level of compliance support you need, we have an affordable option for you.

**Compliance Services Offered**

- Compliance Review
- Website Review
- Policy Review
- Advertising & Disclosure Review
- Compliance Hotline
- Compliance Training
- Remote Consultant

**For more information, contact:**

Kassia Holt at 952.886.9548  
 Kassia.Holt@ubb.com



**First for Your Success™**  
 www.ubb.com • Member FDIC  
 800.752.8140