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## Protecting Your Bank's Assets

### What Community Banks Need to Know About Corporate Insurance

By Tim Henry, Vice President / Managing Agent, UBA

#### Know Your Risk

When reviewing your bank's insurance policy options, you and your management team must identify the risks facing your organization, evaluate the likelihood that one or more will occur, assess the potential severity of the risk, and determine the potential impact of a loss on your organization's bottom-line. This process has become increasingly complex and difficult, especially given the demands on your time and the expense.

#### Hazards Facing Your Organization

The hazards facing your organization are unique to your industry. For example, while **Cybersecurity** is a concern of most businesses, the Cyber exposure facing financial institutions is multi-faceted and potentially catastrophic. Let's say a bank employee receives an external email with an internet link, clicks on the link, and causes malware to be installed on his or her computer. Hackers now have access to the bank's email system and any attachments therein which contain sensitive customer or bank information. The bank must investigate the cause and scope of the breach, identify customers whose information may have been affected, determine the notices that must be given, and defend any litigation commenced by affected customers. All of the above are merely the tip of the iceberg if an investigation uncovers more pervasive infiltration such as the bank's computer network.

**Lending risk** and related fallout is ongoing with concern turning to the agricultural segment in particular. Disputes often arise when the bank takes steps to foreclose on a loan or exercise its rights to collateral under the loan

#### Bill Rosacker A Note from the President



I'd like to kick off this Spring edition of the Independent by reminding you, if you haven't done so already, to check out our recently released 2017 Annual Report, titled *Facing Challenges Together*. The theme and content for this annual report is a direct result of feedback from a community banking R&D survey we conducted last year. The report calls attention to the most prevalent challenges impacting community banks, and highlights the important resources UBB has available to assist them in addressing the

challenges of today, tomorrow and the foreseeable future. At UBB, we view our role in community banking as a trusted partner rather than a vendor and as the title of the annual report implies, we're here to help our customers face their challenges. To view the 2017 Annual Report, simply visit [www.ubb.com](http://www.ubb.com) and click on the News & Events link.

This edition's cover story ventures into the sometimes uncertain ground of corporate insurance. Tim Henry, our UBA Managing Agent, offers guidance for protecting your bank's assets and encourages community bankers to be aware of all the major considerations when choosing an insurance provider. Tim oversees our convenient BankConnect service, which compiles multiple quotes for community banks from A+ or better carriers, with the submission of just one application. Simply flip over to the back panel of the newsletter to learn how BankConnect can potentially lower your premiums and enhance your coverage.

Also included in this edition, we hear from John Beerling, our International Business Development expert on the possible impact protectionism may have on global trade. Jeff Thompson, UBB Compliance Services' Managing Agent provides a host of best practices to consider prior to your next fair lending exam, and in our Employee Spotlight feature we introduce you to Cha Thao-Vang, UBB's Operations Support Supervisor.

In our Keeping the Community in Community Banking feature, we visit with Security State Bank (SSB) in Basin, WY. We learn about the impact SSB employees are making in the community, and how the city of Basin earned the claim to fame as the "Lilac Town."

April 13 was a bittersweet day for UBB. Kevin Bostrom, Executive Vice President and Chief Credit Officer officially retired and we said "good bye." After spending nearly three decades at the bank, it will be a big loss to UBB and to the community banking family. Kevin has been an important asset to the bank and to our customers. He has left a solid structure in place with employees that have not only extensive banking expertise, but also many years of correspondent lending experience. We want to thank Kevin for his years of hard work and wish him nothing but the best in his retirement.

In closing, thank you for the opportunity you've given all of us at UBB to earn your business. We value each and every relationship we've developed over the past 43 years and are honored to be called your bankers' bank. Wishing you the very best and as always, UBB is *First for Your Success*.

agreement. For example, take a bank customer with loans secured by its business, land, its owner's home, and personal guarantees. The customer has difficulty keeping current and signs an authorization agreement for the bank to sell a building and real estate. After a sale of assets, the customer disputes the right of the bank to sell personal property or equipment. The customer claims the bank owes it more than \$1 million after the sale of these items and application of proceeds to the past due loan.

**Fraud** remains a top concern with employee dishonesty and **fraudulent wire transfers** leading the way. A typical fraudulent wire transfer involves an email request to the bank by a purported bank customer. Often the transfer request involves a recipient bank located in Hong Kong, Singapore, or similar foreign location. Often the "bank customer" is out of the office, say at a funeral, and cannot be reached for verification the day of the request. An alternative cell phone number is provided for verification as the funds must be transferred ASAP. A bank employee, trying to provide good customer service, processes the wire. Days later the actual customer learns of the unauthorized transfer, and informs the bank of the fraud.

### Know Your Policy Provisions

As you may be aware, there are specific provisions in your bank's Financial Institution Bond requiring you to follow certain procedures before a **fraudulent wire transfer** will be covered. Do you know the requirements in your bank's bond and is your bank following them? If you are not, you run the risk of a significant uninsured loss.

### Know Your Carrier

There are many high quality insurance companies offering insurance for banks. There are other companies with more questionable financial strength. Know which category your insurer falls into before you select the carrier as your risk transfer partner. What is the carrier's claims paying reputation? Does the carrier have claims reserving issues which affect its ability to pay your bank's claim down the road? Does your insurance carrier pass your vendor-management protocol? What is your company's A.M. Best rating?

### Cyber Hype

The cyber risks facing financial institutions in the 21st

century are real and not merely cyber-hype. From fraudulent wire transfers to social engineering schemes and ransomware attacks, banks are experiencing "cyber" losses. It is important to know which of your policies, if any, address these exposures. Perhaps more

importantly in the case of fraudulent wire transfers, it is important to determine whether the loss is the bank's responsibility **or that of your customer** who has incurred its own cyber loss and should be carrying appropriate insurance to cover.

Cyber protection policies are changing daily. Does your carrier offer and has your bank purchased so-called "first party protections" in the event of a suspected breach? First party coverages include forensic, breach notification,

public relations, credit monitoring, and business interruption expenses and should be purchased in amounts sufficient to cover the bank's exposure.

Does your carrier offer select vendors for these services? Have you done a cyber breach claim walk-through to familiarize yourself with the steps that need to be taken before a breach occurs?

### Insurance Tools to Save You Time

There are a number of insurance products which are designed to improve the bank's efficiency while offering important protections. These include Mortgage Impairment, Lenders Single Interest, Excess FDIC Insurance, and Blanket Commercial Equipment coverage. We can educate you on the benefits provided by these programs and determine whether they are viable solutions for your bank.

### All Insurance Advisors Are Not the Same

Community banks often face pressure to use a "local" insurance agent, a board member, or a large depositor. Unless those agents are community bank specialists, that choice may not be in the bank's best interest. A specialist will guide you in the areas of appropriate coverage and limits, proper carrier evaluation, and optimal pricing and terms. You do not want to find out after incurring a large uninsured claim that your agent does not have the expertise to insure your bank.

Furthermore, not all agents are able to represent all carriers that insure banks. The best carrier available to you may not be available to your agent. We at UBA can guide and assist you in these matters.



# Are You Ready for Your Next Fair Lending Exam?

## Best Practices to Consider Before Your Next Exam

By Jeff Thompson, CRCM

If you ask any community banker about their fair lending performance, they invariably say, "Of course we lend fairly, why wouldn't we?" And they say that with conviction because it's what they believe. The majority of the time, it's true.

However, a fair lending examiner has the advantage of 20/20 hindsight. In the context of other actions taking place around that same time, an action that looks completely innocuous today, may look entirely different 6 months, 1 year or 2 years later. And unlike other areas of regulatory compliance, it doesn't take many findings to turn a routine examination into a nightmare.

The good news is that you can be better prepared for your next fair lending examination by taking a few simple steps before your examiners come looking for issues, including:

- A careful review of your lending policies and procedures
- A comprehensive risk assessment
- Training for employees, officers and directors
- Internal testing

**Review Policies and Procedures** – Do you have a separate Fair Lending Policy? The days of having a single paragraph buried in your general lending policy that says you won't discriminate are coming to an end. Most regulators would like to see a more robust statement from your board as to how you will ensure that your lending is fair and equitable.

You should also review the remainder of your lending policies and procedures for triggers that may cause you problems later. For instance, how much pricing discretion is given to loan officers? Are there terms and conditions buried in your policies or in your articulated lending standards that could be construed as discriminatory? How do you handle spousal guarantees?

**Fair Lending Risk Assessment** – Your risk assessment should cover your overall fair lending management program, your complaint function, your lending controls, and loan servicing controls.

Consider the following to fully determine your level of fair lending risk:

- How do you compensate lenders?
- Do you track your policy exceptions and report them to the board on a periodic basis?
- What are the demographics of the areas you serve?
- How much training is provided and to whom? Have you had any Reg. B, Fair Housing, or CRA violations?

- Do you have monitoring or audit processes in place?

All of these, among others, will help you determine your level of fair lending risk.

**Training** – Banks have been told by their examiners that fair lending training must be provided to the board of directors annually. But what about your employees? How much fair lending training have they received? Is it the same training the board gets, or is it more in depth? How frequently is that training provided? Do you change it up from time to time, or is it just the same training each year?

**Internal Monitoring/Auditing** – Monitoring and auditing are separate functions, and both can be useful in determining your bank's level of fair lending risk. Monitoring is something that occurs in real time right before or after action is taken. It generally takes a couple forms, depending on which way the lending decision goes. If the loan is slated for origination, pricing and fees need to be reviewed carefully. If the application is slated for denial, a second officer should be reviewing the situation to agree/disagree with the decision, and to ensure that all the reasons for denial are properly documented in the supporting file.

A fair lending audit is something encouraged by regulators on a regular basis. While we agree that this is a worthwhile endeavor, its frequency is subject to several factors. If you are located in a metropolitan statistical area (MSA), have a diverse population, have been cited for any regulatory infractions, or your risk assessment indicates you have higher than normal risk, you should probably perform a fair lending audit at least annually.

However, if you are in a rural area, with a relatively homogeneous population, and your risk assessment indicates a low level of risk, you should still perform fair lending testing, but not necessarily every year, or even every other year.

Do not leave your next fair lending examination to chance. You can take these few simple steps to determine where your risks lie and how those risks might affect your bank. Use the information you learn when you perform your own risk assessment to fill in the holes in your processes. You can perform your own testing, or hire someone to perform testing when it's warranted. If you follow through with these few simple steps you will have a much easier examination experience, and your regulators will realize that you are on top of your fair lending priorities.

**United Bankers' Bank**  
**Call Report (unaudited)**  
**3/31/2018**

**Balance Sheet (000's)**

**Assets:**

Cash and Due from Banks	\$	35,844
Investments	\$	81,758
Fed Funds Sold & Securities Purchased Under Agreement to Resell	\$	50,319
Loans		
Outstanding	\$	619,975
Loss Reserve	\$	(7,617)
Other Assets	\$	28,749
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>809,028</b>

**Liabilities and Capital:**

Deposits	\$	696,251
Fed Funds Purchased	\$	6,520
Other Liabilities	\$	9,355
Equity Capital	\$	96,902
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>\$</b>	<b>809,028</b>

**INCOME STATEMENT (YTD)**

Interest Income	\$	7,628
Interest Expense	\$	1,247
Net Interest Income	\$	6,381
Loss Provision	\$	676
Net Interest Income (After Provision)	\$	5,705
Other Income	\$	4,023
<b>Total Income</b>	<b>\$</b>	<b>9,728</b>
Operating Expenses	\$	7,965
Securities Gains (Losses)	\$	—
Net Income Before Taxes	\$	1,763
Tax	\$	455
<b>NET INCOME</b>	<b>\$</b>	<b>1,308</b>



**Family Members:** My Husband, 3 boys, and 2 girls.

**Pets:** Fish Tank full of Guppies

**What do you listen to on your drive to work:** News Radio, or Audio Books.

**Interests:** I enjoy spending time with my family, reading books, traveling, and volunteering at my kids' schools.

**If I could live anywhere in the world, I would live:** Although, I have never visited before, I would choose Hawaii. It is warm and tropical.

**If I could have one super power (besides flying) it would be:** Freezing moments in time.

**Many people don't know that I:** I am a Great-Great Aunt to a 4-year-old niece.

**If I was not working in banking I would:** I would work with children and families.

**I started working at UBB in:** July, 2007.

**My favorite part of working in banking is:** Working with great co-workers and all the benefits UBB offers, including great food sometimes.

**The best advice I ever got was:** Always give your best.

**First For Your Success means:** The customer's success is my first priority.



Cha's children  
 Back L-R: Lana, Changchang  
 Front: Belle, Calven, Hiro.



Cha and her husband, Michael.

# Protectionism and Foreign Exchange Markets

By John Beerling, Vice President, International Business Development

As the United States begins implementing protectionist policies, it may be useful to examine some of the effects that may be expected in foreign exchange (and other) markets. Keep in mind that we have recently seen strong increases in global trade overall. This situation is, however, likely to change in the face of trade protectionism.

## Impact of Trade Protectionism

Currencies impacted the most negatively would be those who disproportionately trade with the U.S. and for whom trade represents a large portion of GDP. Some examples of affected currencies are CHF, EUR, and CNY. The next largest impacts would be for countries who trade significantly with China, since that is where the U.S. is directing policy. Examples of currencies influenced from this would be CAD, JPY, AUD, NZD, KRW, SGD and MXN.

Commodity prices may also come under pressure as tariffs cause reduced demand for more expensive final products by U.S. consumers. Currencies such as CAD, AUD and NZD would suffer in this environment. The impact of trade protectionism would even extend to commodity exporters who do not predominantly deal with the U.S., resulting in negative effects to currencies like MYR, RUB, CLP, PEN, and ZAR.

While protectionism would likely prop up the value of the U.S. dollar, countries with a high proportion of USD denominated debt would be adversely affected. Examples of those currencies include HUF, TRY, CLP and SGD.

## Local Impact

There will also be some serious local effects in the U.S. because of protectionism. Most notable is inflation. Increases in steel and aluminum costs will lead to

increased prices for automobiles, aircraft, construction materials, and aluminum cans. While the U.S. may save a few hundred jobs in the steel industry, it may risk thousands more in automobile and aircraft production.

These sound like some serious effects and they are. However, all of this analysis results from only examining

U.S. protectionism. As we have already heard, countries around the world will respond with their own forms of protectionism, which should put pressures on yet another set of currencies.

With so many nations battered in a trade war, the situation appears somewhat reminiscent of a global depression and trade war, not unlike the 1930's. Since that is not generally a time when we regard America as 'great,' we might assume that it is not the goal to take us back there again.

Since we have been assured that 'trade wars are good, and easy to win,' we can assume that this

entire protectionist stance is merely a negotiating ploy. No serious support for that statement exists, and no plan for winning a trade war will ever be presented. China has responded to U.S. tariff announcements with tariffs of their own. However, neither side has actually enacted the tariffs. It is unlikely that they will.

## Ongoing Negotiations

Both China and the U.S. admit they are currently in active trade negotiations. Both sides felt it necessary to play the tariff card to establish trade positions. Also, do not discount the political implications of the presidential announcement of tariffs on the eve of a hotly contested election in steel country. This appears to be just the opening salvo in a long round of negotiations. It does not appear either side is actually willing to risk the effects of a trade war. While winning a trade war may be 'easy,' losing one could be disastrous.

Foreign Exchange Key	
Country/Currency	Currency Abbreviation
Australia Dollar	AUD
Canada Dollar	CAD
Switzerland Franc	CHF
Chili Peso	CLP
China Yuan/Renminbi	CNY
Euro	EUR
Hungary Forint	HUF
Japan Yen	JPY
South Korean Won	KRW
Mexico Peso	MXN
Malaysia Ringgit	MYR
New Zealand Dollar	NZD
Peru Nuevo Sol	PEN
Russian Rouble	RUB
Singapore Dollar	SGD
Turkish New Lira	TRY
USA Dollar	USD
South Africa Rand	ZAR



## Keeping the Community in Community Banking

### Security State Bank • Basin, Wyoming

Big Horn County is one of the most scenic counties in Northern Wyoming, and home to the town of Basin where Security State Bank (SSB) has served this community of 1,300 since 1929. When entering the city of Basin, you are instantly greeted by delightful perfumed lilac hedges that line the roads. Lilacs are a staple of this community, so much so, that Basin is branded the “Lilac Town.” This claim to fame is celebrated each year in June at the Lilac Festival, where a woman is chosen for making a difference in the community and then honored by being crowned the “Lilac Queen.”

SSB’s steadfast drive to not just exist, but to be a benefit, to support and to serve is evident in everything they do. Friendly- and first-name greetings for customers, back-to-school supply drives for local students, and winter coat & blanket drives for families in need are just a few of the ways SSB embraces the community. To learn more about how Security State Bank is keeping the Community in Community banking, we visited with Shelly Wray, SVP Business Development.



Paint Gillette Pink - Breast Cancer Awareness Donation



Sheridan Branch Diaper Drive



**Bank Name:**  
Security State Bank

**Bank Charter Location:**  
Basin, Wyoming

**Bank Representative:**  
Shelly Wray, SVP Bank Representative

**Asset Size:** \$325 million

**Number of Locations:** Five

**Number of Employees:** 76

**Year Bank was Incorporated:** 1929

**City Population:** 1,300 in Basin  
and another 69,025 in the  
surrounding areas they serve



#### What is your community most known for?

Basin, is a small farming community and lies in perhaps one of the most scenic counties in Northern Wyoming. In 1910, the citizens of Basin began a tree and shrub planting campaign and a “Lilac Town” drive in 1936.

“Western” means different things to different people and you’ll find our communities honor their frontier past while embracing their multifaceted future. Agriculture, outdoor activities, mining, railroads and oil are commonalities you’ll find within the Northern Wyoming communities we serve.

#### How is your bank involved in the community?

As a community bank we encourage volunteerism and join together to support service organizations that play an essential role in the growth and well-being of our communities. Many bank employees are actively involved in and support local organizations with donations of resources and time, including Advocacy and Resource Center, Local Chamber of Commerce, United Way, Rotary Clubs, City of Gillette Investment Advisory Committee, Relay for Life, and the Greybull Economic Development Board

among several others. SSB is also active in the local schools, where we are involved with Teach Children to Save Day, education of basic finance, as well as conducting many elementary school bank tours.

#### What makes community involvement important to you and your bank?

As a local business ourselves, we have a vested interest in giving back to our communities. We are only successful when our customers and communities flourish. Our employees and their families live and work here and we believe in supporting the needs of our local communities. Since 1929, community has remained and will remain a cornerstone of who we are.

#### What do you like best about your community?

Each branch market offers different qualities and opportunities that make them unique from rural, agricultural communities to commercial and industrial communities. Wyoming is a great place to live and raise a family with a quality of life you’d have to experience to appreciate.

#### What do you like best about being a community banker at Security State Bank?

We enjoy getting to know our customers by name and building lifelong relationships with them. We take the time to listen to their needs and it is very rewarding to be a part of the solution during many of their stages in life. Through teamwork and customer service as a focus, we are able to offer the best of both worlds, we are small enough to listen, yet big enough to help.

# eCommerce Payment Security, Evolved

By Jill Robiller, Bank Cards and Payments Manager

The desire of consumers to shop seamlessly and on their preferred devices has grown exponentially. With that, the opportunity for fraudsters to go digital has increased as well. About 15 years ago, Visa® implemented 3-D Secure to protect cardholders by authenticating eCommerce transactions. It was one of multiple layers of security and fraud prevention Visa used to confirm cardholder identity at checkout. This implementation was done globally as well as licensed to major payment networks (i.e. Verified by Visa, MasterCard Identity Check, American Express SafeKey®, etc.).

Fast forward to present day and the convenience of being able to make necessary purchases from anywhere, on any device, at any time is driving a new payment channel – Digital Commerce - Card Not Present (CNP) transactions. Digital Commerce has made it critical, now more than ever, to invest in new ways to prevent fraud without losing the speed and convenience customers have come to expect.

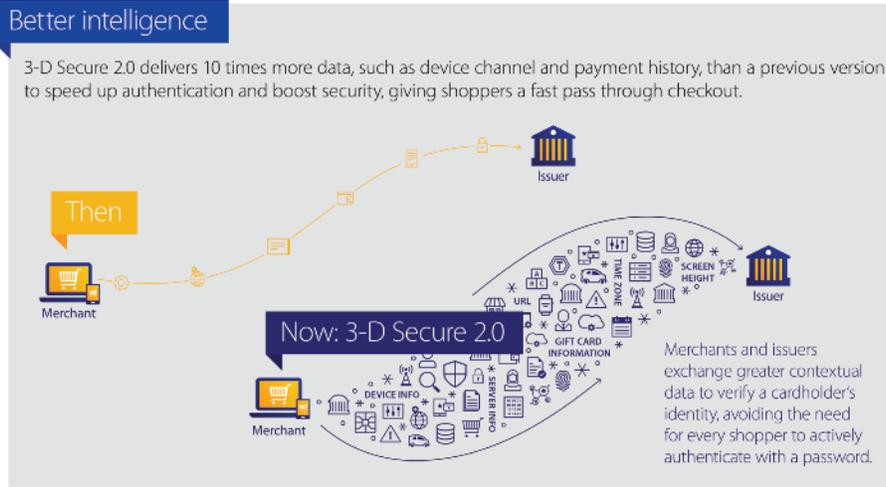
In an effort to keep up with these consumer and business demands, Visa has introduced **3-D Secure 2.0**. This new authentication solution enables a dynamic

risk-based authentication environment to:

- Reduce false-declines while minimizing fraud losses
- Optimize the consumer experience
- Enable flexibility and global interoperability
- Facilitate enhanced data exchange

The newer, stronger, upgraded 3-D Secure 2.0 will improve authorization approval rates by removing friction

at the point of purchase and reduce fraud by migrating towards dynamic cardholder authentication (no more user name and password as was required by Verified by Visa). It will



leverage Visa's state-of-the-art fraud detection capabilities while accommodating a wide range of consumer devices, including mobile phones and tablets.

UBB has already begun the implementation process for Visa 3-D Secure 2.0 and we project full implementation by early summer. Transactions approved with confidence. Consumer and merchant peace of mind. Improved sales. Better customer experience. The evolution of eCommerce with 3-D Secure manifests the commitment of UBB to your success.

Jill Robiller, Bank Cards & Payments Manager • [jill.robiller@ubb.com](mailto:jill.robiller@ubb.com) • 952-885-9458

## Announcing the Retirement of Kevin Bostrom

Kevin Bostrom, Executive Vice President and Chief Credit Officer retired on April 13, 2018. He has been influential and a driving force of UBB's lending department for over 29 years.



Bostrom's leadership and expertise will be missed, but he leaves the

department in great shape and in great hands. Conrad Newburgh has been promoted to SVP, Chief Credit Officer, and Dawn Tollefsrud has been promoted to VP, Senior Credit Officer.

Congratulations to Kevin on a well-earned and deserved retirement!



United Bankers' Bank  
Suite 1500  
1650 West 82nd Street  
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As a result, **your community bank could benefit from:**

- **Enhanced or Expanded Coverage**
- **Lower Policy Premiums**
- **More Insurance Options**

.....  
Don't make the mistake of being underinsured and overpaying for your coverage.  
.....

Contact UBA to receive your BankConnect quotes today.



Tim Henry  
VP, UBA Managing Agent  
[Tim.henry@ubb.com](mailto:Tim.henry@ubb.com) or 952-886-9524