UBB First for Your Success™

News, Analysis and Perspective for Community Banks by the Nation's **First** Bankers' Bank

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This Issue:

Banks: The Path to Service Quality and Managing Costs for the Future

By Bryan T. Di Lella, Senior Vice President at ICI Consulting

Meet your customers where they are. I recently visited my local bank to conduct a transaction that could not be performed digitally or at the ATM. While speaking with the teller, I learned about a new product and, on my way out, the branch manager held the door while we had a quick chat. She asked if all my banking needs were being met – and there was even a farewell handshake. Imagine that! I left the branch feeling good about my banking relationship.

As the effects of the pandemic recede, the economy is faced with a new set of challenges not completely unrelated to the global health shock. Inflation has risen to levels not seen in 40 years, slowing growth, and rising interest rates, among other conditions, are top concerns for citizens - and the banking industry that serves them.

While the economy and the banking sector adjust to current challenges, one thing has not changed – the importance of delivering superior customer service. It is hard work to delight customers, but when you do, the results are tremendous and lead to loyalty, growth, and enhanced profitability. Conversely, through ICI Consulting's advisory work on technology solutions for banks nationwide, we find when vendors fail to provide functional products with excellent service and support, banks often leave in favor of another vendor that will deliver.

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Dwight Larsen A note from the President

The first part of the year has been busy and exciting for UBB. To help banks save money and improve contractual terms with their core processing vendors, UBB announced our new partnership with core consulting experts ICI Consulting. In March, we cohosted a virtual tabletop exercise with CISA to assist community banks in improving their preparedness in responding to cyber threats. The event attracted much interest, with over 170 community banks registered to participate. Also, at the end of March, we hosted our annual ALMEdge asset liability management conference. It was our first time hosting this event in person since 2019, and this year we introduced a hybrid option, allowing the opportunity for both virtual and in-person attendance. The change proved very successful, with over 250 bankers from 14 states attending. At our annual shareholders' meeting in April, we introduced our 2022 UBBI Annual Report titled There First, There Always and welcomed new board member Rich Jones from Randall State Bank to the UBB & UBBI boards of directors. We are also continuing our preparations and planning to launch our FedNow solution, Pidgin, in July.

Our cover story comes from the aforementioned partner, ICI Consulting, where they write about how utilizing the best software tools can assist your bank in enhancing and continually delivering superior customer service.

One of the most significant changes to hit the banking industry this year has been the 1071 regulation from CFPB. UBB's Compliance Services Managing Consultant, Jeff Thompson, breaks down what you need to know to ensure you follow the new policies accordingly.

Is your bank looking for a great way to generate non-interest income? This issue's Q&A highlights how our Merchant Services Program can help you accomplish that!

In this issue's Employee Spotlight, we feature Katie Ferrell, Vice President, and Senior Compliance Consultant. Learn more about Katie on page 4.

Eaton Community Bank recently reinvented itself while maintaining its community involvement and focusing on serving local customers. Find out how Eaton Community Bank is *Keeping the Community in Community Banking.*

These are exciting times at UBB. We continue to adapt to our changing industry while always looking for new ways to provide community banks with the value and resources needed to be successful. Given the rate environment, compliance changes, and growing economic challenges, I'm encouraged by the grit and perseverance of community bankers to weather the storm like they always do. In good times and bad, UBB will always be in the corner of community banks and will always be *First for Your Success.*

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Of course, there is more than one way to offer superior customer service. During the pandemic, we have seen an increased demand for banking services through digital channels. The rapid adoption of Digital Banking has exacerbated the need for banks to have responsive, innovative digital and mobile offerings. The pandemic accelerated the use of such channels among a rising set of customers who may have yet to interact with their financial institutions in this manner. Banks tuned into their customer base, effective digital channels, and even in-branch customer service must be a part of current and future strategies. This is the contemporary path to service quality for those banks and, they are prepared to invest in it.

Notably, service quality is primarily the result of the management and philosophy of the bank. Customers want to see their bank cares: it values the relationship and understands the customers' needs regardless of where and when the transaction occurs. If banks embrace this intense customer focus, they will forge new paths to service quality. An ICI Consulting bank client that kept its locations open during the pandemic proudly stated, "We never had to ask our customers to make an appointment to visit a branch."

In part, service will only be as good as the software tools banks use to implement Digital Banking. Therefore, a comprehensive survey of the institution's requirements and a rigorous evaluation of current offerings is demanding the attention of bank executives to be competitive in the market, responsive to existing customers, and in a position to attract new business. Banks must look ahead to a time when the economy stabilizes and people return to their normal routines. To secure a long-term and stable customer base, banks will need to grow by catering to a younger demographic while still providing superior service to all clients. Attracting and servicing future generations will require innovative new products and services delivered through Digital Channels. Banks must also anticipate the likely challenges ahead and be prepared for a time when growth levels out. When this occurs, one of the most dependable actions is to control costs.

With few exceptions, Data Processing expenses are among the top three expenditures, along with Salary & Benefits and Premises & Fixed Assets, which financial institutions incur on an ongoing basis. Data Processing expenses, which include an institution's spending on Core Processing & Ancillary Systems, are addressable cost-reduction targets.

Ancillary Systems are applications that surround and interact with the Core System. They include important services like ATM/EFT, Credit Card, Online Banking, Mobile Banking, Loan Origination & Servicing, Payments, Wire Transfer, Cash Management, Document Management, BSA/AML, IT Security, Check Processing, etc. Ancillary Systems are as important as the Core System because they support the critical business functions of the institution and serve as vital touchpoints for customers.

We also see banks aggressively pursuing new strategies to expand and emphasize Digital Channels. By modernizing Digital Channels, banks are not only reaching more customers, but they are also doing so with more innovative and integrated applications while potentially reducing data processing spend. Furthermore, they are making a sound investment in what will become an essential channel through which customers will be served in the future.

Banks are also making changes to the Digital Channel to address both commercial and consumer business, integration to the Core System, and because of variable vendor product and support plans. When reviewing Data Processing systems contracts, grouping ancillary products that serve the Digital Channel with other important applications, especially the Core System, will increase the bank's purchasing power and negotiation leverage. We regularly recommend this holistic approach to our clients as it yields the best results.

Banks will do a great service to their customers and shareholders by closely examining and monitoring Data Processing costs. The industry has a wide range of pricing models, and the best way to gain insight into comparable market prices is to conduct a competitive evaluation. Banks that take the time to do so, and start the process 24 – 30 months before contract expiration, will see the best outcome – including finding the best solutions and addressing the institutions' business requirements at the best price and terms.

Bank goals may be achieved by either negotiating or renegotiating technology contracts. While some executives deem the technology review process painful, it remains an important part of due diligence by the financial institution in a key area that is the foundation of efficient and cost-effective operations. Most banks maintain multi-year contracts with Core Processing Vendors. With the opportunity to evaluate alternative solutions and/or address costs only every 5, 7, or 10 years, it is wise to take advantage of the typical contract cycle to review business-critical applications carefully. If not, then when?


pidgin
Instant Payments
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United Bankers' Bank
Call Report (unaudited)
3/31/2023

Balance Sheet (000's)

Assets:	
Cash and Due from Banks	$ 168,887
Investments	$ 188,776
Fed Funds Sold & Securities Purchased Under Agreement to Resell	$ 70,616
Loans	
Outstanding	$ 729,541
Loss Reserve	$ (12,480)
Other Assets	$ 43,759
TOTAL ASSETS	$1,189,099
Liabilities and Capital:	
Deposits	$ 662,818
Fed Funds Purchased	$ 264,475
Other Liabilities	$ 140,880
Equity Capital	$ 120,926
TOTAL LIABILITIES & CAPITAL	$1,189,099

INCOME STATEMENT (YTD)

Interest Income	$ 11,436
Interest Expense	$ 6,440
Net Interest Income	$ 4,996
Loss Provision	$ 189
Net Interest Income (After Provision)	$ 4,807
Other Income	$ 7,724
Total Income	$ 12,531
Operating Expenses	$ 8,098
Securities Gains (Losses)	$ –
Net Income Before Taxes	$ 4,433
Tax	$ 1,182
NET INCOME	$ 3,251

Employee Spotlight

Katie Ferrell

Vice President, Senior Compliance Consultant
601-522-9229 • Katie.ferrell@ubb.com

Family Members: Husband - Neil; daughter - Frances (12) & son - Cash (10). I also have three brothers, and one is my twin.

Pets: A Goldendoodle - Macy & two orange tabby cats - Bernie & Chewy.

What do you listen to on your drive to work: I work remotely, but if I need a boost at the home office, Elton John is always a go to!

Interests: I enjoy traveling, cooking, going to concerts, eating out and working out.

If I could live anywhere in the world, I would live in: While I love to travel to tropical places, I would live out West in the mountains.

If I could have one super power (besides flying), it would be: The ability to function without sleep!

Many people don't know that: I ran a marathon.

If I was not working in banking, I would: Be a caterer because I love to cook large meals and feed people.

I started working at UBB in: May 2022.

My favorite part of working for UBB: Our clients. I work with the most authentic and wonderful compliance personnel from all over the country and all varieties of banks. Having been in the 'trenches' they're in, I always try to remain understanding and empathetic. Giving back to the industry I worked in for so many years brings me much joy.

The best advice I ever got was: "You can't connect the dots looking forward; you can only count them looking backwards. So you have to trust the dots will somehow connect in your future." Although Steve Jobs didn't give me the advice directly, I try very hard to maneuver my personal life and career believing in this. Every role, colleague, challenge, success, mistake, and opportunity has been for a reason even though sometimes I couldn't understand it at the time.

First For Your Success means: Being a trustworthy, authentic, and kind compliance resource for our clients and prospects.

Katie and brother, Derek, on trip to Spain.

Katie Ferrell with husband, Neil, daughter, Francis, and son, Cash.

Small Business Data Collection – The Good, the Bad, and the Ugly

By Jeff Thompson, CRCM

On March 30, 2023, the CFPB published the long-awaited, 888-page final rule implementing Section 1071 of the Dodd-Frank Act, which requires collecting and publishing data regarding lending to small businesses, with particular attention paid to women-owned and minority-owned businesses. The original proposal was published in September 2021, and some of the final rule is good, some is bad, and some is downright ugly. The final rule will reside inside Regulation B, meaning it will have some teeth.

The Good

After the proposal's publication, there was significant concern about how this rule would affect smaller banks, as the threshold for being a reporter was set at 25 small business loans per year. Cooler heads prevailed at the Bureau, and the reporting threshold was moved to 100 small business loans in two consecutive years. This change will be a huge relief for many small banks. In addition to that good news, if your bank originates more than 100 small business loans in 2022 and 2023 (and 2024-25) but less than 500 in those years, you will have until January 1, 2026, to prepare and begin collecting data. The Bureau estimates that thousands of banks will be exempt from reporting due to the threshold change.

Banks with over 500, but fewer than 2,500, small business originations in 2022 and 2023 generally have until April 1, 2025, to collect data that will be reported by June 1, 2026. All others will begin collecting data on October 1, 2024. The other piece of apparently good news is that banks will have until June 1st of the year following the reporting year to submit data to the Bureau.

One final piece of good news that came out of the final rule is that lenders will not be required to “fill in the blank” as it relates to the demographic data based on visual observation or surname if the borrowers do not, as they are for purposes of Regulations B and C under current law. This is a positive change from the original proposal.

The Bad

As anyone who has dealt with HMDA reporting can tell you, this type of reporting is bad no matter how you cut it. It’s an expensive and often frustrating process. A simple misinterpretation of the rules, a change in personnel, or a lack of sound quality control of the reporting function can cause headaches for your bank. This new reporting regimen will require significant paradigm shifts in the commercial loan departments of many banks. The following is a brief synopsis of what you need to know as a reporter.

Two definitions are included with the final rule that will be integral to your reporting process. A *Small Business* is defined as a business concern that had $5 million or less in gross annual income in the preceding fiscal year. Non-profit and governmental entities are specifically exempted from this definition. A *Covered Credit Transaction* is an extension of business credit as defined by Regulation B and includes loans, lines of credit, credit cards, merchant cash advances, and credit products used for agricultural purposes. There are exclusions to this definition, but that’s for another day. It is also important to understand that banks will be reporting on ALL applications that fall into the category of a covered credit transaction to a small business. Applications can be either oral or in writing.

The next challenge for banks that have never implemented a written application form in their commercial loan departments will be collecting all the data necessary to report at the application stage. For all applications, the minimum data to be collected includes a unique identifier for the deal, the application date, the means by which the application was taken, if the application was received directly or indirectly, the action taken by the bank, and the date the action was taken. Defining an application in policy and procedure will be a key component of your reporting regimen. For applications that are denied, you’ll need to record and report the reasons for the denial.

For originations or loans that were approved but not accepted by the applicant, banks will need to collect the credit type, purpose, amount applied for/approved, census tract data, gross annual income, NAICS code, number of employees, how long the company has been in business, and the number of principal owners. The bank will also collect demographic data, such as if a small business is minority-owned, women-owned, or LGBTQI+-owned and the ethnicity, race, and sex/gender of all principal owners. See *The Ugly* section below for more information about this part of the rule.

Once you submit your data to the CFPB each year, the Bureau will take the data, and very similar to the way they process HMDA data, they will first publish aggregate data, and then several months later, they will release information specific to your institution's report. Banks will be required to let the public know that the data is available from the CFPB. This will generally occur on each bank's website but might require alternative means of publication.

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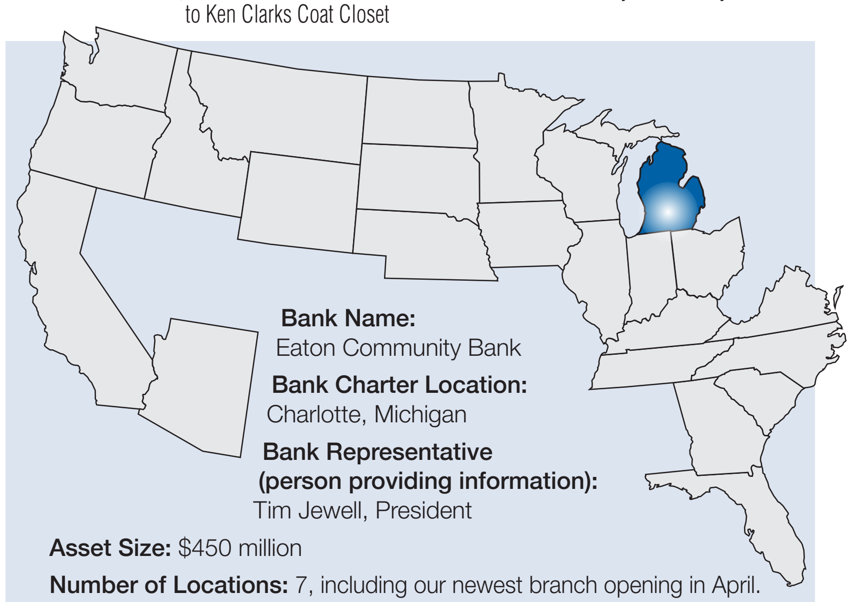
Keeping the *Community* in Community Banking

Eaton Community Bank • Charlotte, Michigan

Approximately 20 miles southwest of Lansing sits the town of Charlotte, Michigan. Eaton Community Bank has been serving the financial needs of the citizens of Charlotte for over 85 years. In just the past few years, Eaton Community Bank has reinvented itself away from its traditional thrift model. By overhauling its product and services lineup, it built a commercial lending function from scratch, deployed new modern systems, and launched wealth management financial services. Through this reinvention and rebranding, Eaton Community Bank has continued its legacy, focusing solely on serving its local customers. We sat down with Tim Jewell, President, to find out how Eaton Community Bank is *Keeping the Community in Community Banking*.

Eaton Community Bank's Charitable Giving to Ken Clarks Coat Closet

Eaton Community Bank Lobby



Bank Name:
Eaton Community Bank

Bank Charter Location:
Charlotte, Michigan

Bank Representative (person providing information):
Tim Jewell, President

Asset Size: $450 million

Number of Locations: 7, including our newest branch opening in April.

Number of Employees: 85

Year Bank was Incorporated: 1937

City Population: All our communities combine for more than 73,000.

What is your community most known for?

Mid-Michigan is an outdoor enthusiast's playground for all four seasons. From hunting and fishing, biking and hiking, camping, motorsports, and lake life to visiting an apple orchard for cider and donuts, there's always something to do outdoors. Mid-Michigan also is home to the state capital, Michigan State University, and several industries with rich histories with a national and international reach, like agriculture, auto, insurance, and manufacturing.

How are you involved in your community, and how do you encourage community involvement?

We are involved in many sponsorships and volunteering opportunities, but we've got two programs that I'm particularly proud of. The first is our Floyd M. Jewell Memorial Scholarship. Educating our future generations is so important, so every year beginning in 1988, the bank awards a $1,000 scholarship to one graduate at each of our local high schools. Then in 2020, we launched our annual Charitable Giving Campaign designed to help increase awareness of local non-profits that make a difference in our communities. By using social media, we call for nominations from everyone within our communities. We then select five finalists using some simple criteria, equip them with graphics, empower them to be as creative as they desire, and have fun generating as many votes as possible for the next month. The winning non-profit receives a $5,000 donation, and the four finalists receive a $1,000 donation each. Everybody has a lot of fun with it, the campaign generates a lot of awareness for some great organizations, and everyone truly wins.

What makes community involvement important to you and your bank?

The vitality of a community is driven by the financial success of local businesses and the people who live and work there. At Eaton, we don't just serve our communities; we're active, contributing members comprised of individuals who call those communities home. Every employee is involved at various levels. From youth sports coaches to non-profit and chamber board members or general volunteering at community events, it's just who we are.

What do you like best about your community?

There are so many big and small things that it's impossible to isolate just one. But the common thread is always the people. Mid-Michigan is a fantastic blend of small-town living, agriculture, and Midwest family values that harmonize with the ever-changing landscape of culture and technology. And that's because of the people.

What do you like best about being a community banker?

The satisfaction of knowing we make a tangible difference in the communities and for the customers we serve. We like to call it *The Eaton Way*. It's not a destination, it's a journey we have committed to as an organization. We are our communities. Our values and beliefs have our communities at the core, so we measure our success by the success of our communities.

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The Ugly

There might be other aspects of this final rule that bankers will consider ugly, but one of the most perplexing portions of the rule is called the "Firewall." All of the rules regarding the Firewall will be found at 1002.108. This section prohibits several people within the bank from accessing the demographic data collected in conjunction with each application. This requirement was in the legislation, so the Bureau had no choice but to include it in the final rule. The prohibition contained in Section 108 indicates that if an employee or officer of a covered financial institution or a covered financial institution's affiliate is involved in making any determination concerning a covered application from a small business, that employee or officer is *prohibited* from accessing the applicant's responses regarding protected demographic information requested. There are exceptions to this rule and a potential notice to borrowers regarding who will have access to the data, but the prohibition will be problematic for some banks.

Summary and Next Steps

Beginning as early as October 1, 2024, certain banks will be required to collect data on all applications for credit to small businesses. For many banks, this will be a seismic shift in how business is done in the commercial loan department. Banks that believe they will not escape this rule need to start planning to implement a system to collect the required data, report it, safeguard some of that data from its officers, employees, and directors, and ensure the ongoing integrity of that data.

Banks that already collect HMDA data will know what it takes to have a successful data collection and quality control function. In contrast, those institutions that are currently not HMDA reporters will have a steeper learning curve. No matter how much small business lending volume your bank has, you cannot start the preparation for reporting early enough.

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Merchant Services Q&A

By Merchant Services

Q: How can I help my business customers while earning non-interest income for my bank?

A: UBB offers a suite of Merchant Services that enables businesses to accept payments from their customers using debit and credit cards, online payments, and other electronic payment methods. Banks offer these services to merchants as part of their overall financial solutions, and in return, they earn a fee or commission for each transaction processed through their systems.

Banks can earn non-interest income through interchange fees for each transaction through the merchant's system. These fees are usually a percentage of the transaction and are paid to the bank monthly.

Banks can earn significant revenue from fees, particularly if they have a large volume of transactions.

UBB Merchant Services • 866-394-1985 • cardsupport@ubb.com

Announcements

The Independent is going all electronic

Beginning with the Summer 2023 issue, we will change the Independent to an email-only publication.

SCAN ME

If you don't currently receive the Independent via email, please scan the QR Code or visit www.ubb.com/newsletters and click the link at the bottom of the page to sign up.

UBB Elects New Board Member

At the UBBI Annual Meeting on April 19th, we welcomed Rich Jones, President and CEO of Randall State Bank (Randall, MN), to the UBB and UBBI Boards of Directors.

UBB Independent

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If you have questions about our products and services, please call us at **1-800-752-8140.**
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