

This Issue:

- 1-2 Corporate Insurance
for Community Banks
- 3 Countering Workplace Bias
- 4 Employee Spotlight:
Elizabeth Wozniak
- 5 ECCHO Rules:
Member-Driven Changes
- 6 Keeping the Community
in Community Banking
- 7 COVID-19's Early Impact on
Community Bank Valuations



Corporate Insurance for Community Banks

By Tim Henry, Vice President/Managing Agent, UBA

The New Normal

While banks have remained open as essential businesses during the COVID-19 crisis, the manner in which banks have conducted business has been anything but normal. It's important to note that some of the accommodations your institution might have made to adjust to the changes brought on by the coronavirus pandemic could have implications under your bank's Financial Institution Bond or Cyber Policy. Further, if your Bond, Directors' & Officers' Liability, and Cyber policies are renewing this year, there is a possibility that COVID-19 will have an impact on your renewal terms.

ATM Cash

If you have increased the amount of cash in your ATMs, be sure to review your bank's Financial Institution Bond Automated Teller Machine Limit. If you increased ATM cash from \$25,000 to \$50,000, make sure your coverage limit remains sufficient to cover your new exposure.

Wire Fraud

Branch lobby closures have led to a growth in the demand for wire transfers, resulting in an increase of fraudulent wire transfer schemes. In a typical scenario, the criminal compromises the customer's email or steals the customer's banking credentials to initiate a wire transfer request. Receiving what appears to be a legitimate request from the customer, the bank initiates the transfer and, in subsequent days, learns that the request was fraudulent.

Reasons why these types of schemes are successful:

- The security of the bank's customer has been compromised and hacked.

Dwight Larsen A note from the President



As our country continues to adjust and settle back into a new sense of normalcy, community banks continue to serve vital roles as financial first responders for their customers. With all of the changes and economic uncertainty caused by the impact of the coronavirus, the benefits and importance of banking with a community bank have never been clearer or more exemplified. Community bankers have stepped up to the plate by putting in long hours for small business customers needing

PPP loans to keep staff employed, working with customers facing financial struggles to modify their loans and ease their financial burdens, and so much more. It is because of your commitment to being the source of comfort and information to your customers that makes community banking such an important industry in America.

This issue's cover story highlights how changes you may have made at your bank to adjust for the COVID-19 pandemic could affect your bank's corporate insurance policy. Vice President of United Bankers' Agency, Tim Henry, explains the changes and things to consider regarding bank insurance policies, renewals and terms.

Community Bank valuations have also been impacted by the coronavirus pandemic. Ed Usalis, Vice President of BankValue, provides a look at how values have changed over that past few months in relation to previous years.

Across all industries, employers are paying closer attention to workplace biases. Bob Greening, Vice President of USource, identifies the most common types of biases and suggests ways to prevent them from impacting employee hiring and retention decisions.

In this issue we have a special guest article from ECCHO regarding rule changes that went into effect on July 1st. Please be sure to read these member driven changes to make sure you are compliant.

If you have ever contacted UBB Loan Review or Compliance Services, chances are you have talked to our Project Administrator and this issue's employee spotlight, Elizabeth Wozniak. Learn more about Elizabeth on page 4. Then, flip over to page 6 to find out how Farmers and Merchants Bank of North Dakota is keeping the community in community banking.

Our Correspondent Banking Officers are in the process of safely resuming in-bank visits and are looking forward to personally connecting with you when your bank is ready to welcome them back.

Regardless of how much the world changes around us, one thing that never will is UBB's commitment to helping community banks succeed. In good times and bad, we will be by your side and will always be **First for Your Success**.

- The wire request is below the bank's bond deductible, and no callback verification is made.
- Additional (fraudulent) wire requests are intermixed with authorized wires from a customer, and each transfer request is not separately verified.
- The fraudster has created a "time is of the essence" situation expressing a need for the transfer to be completed immediately, often for a pending "real estate transaction."

Steps you can take to protect your bank & customers:

- Train your staff to be alert for unusual behavioral patterns. Does the customer typically wire funds? Does the customer typically transfer funds to the requested account, especially if international? Is your customer varying its customary number of payroll transfers?
- Follow proper bank procedures. Your Financial Institution Bond requires you to have on file a wire transfer agreement with your customer, in advance of the wire transfer, setting forth what individual(s) are authorized to make wire transfers and establishing the wire transfer verification procedure. The bond also requires a callback verification for transfers in excess of a specific dollar amount, often set at the bank's deductible.
- Follow proper callback protocol by using the number on file for your customer (not the number on caller I.D., fax request, or email). Call back on every transfer request, even those under the bank's deductible. The fraudsters know how to fly under the radar and will make multiple small requests if the first transfer is successful.

Use of Digital Signatures

Has your bank expanded its digital signature capabilities? If so, check with your bonding company to ensure you have coverage for digital or electronic signatures and notes. The standard bond form refers to "written" documents and clarifying language most likely needs to be added by endorsement to afford coverage.

What to Expect at Policy Renewal

Banks may see a different Bond and Directors' & Officers' Liability renewal in 2020, especially if they are coming off three-year policy terms. How different will your renewal be?

COVID-19 Questionnaires

Expect a COVID-19 questionnaire at renewal. The underwriter will be trying to determine how the pandemic has affected your customer's and, in turn, the bank's financial well-being. Typical questions focus on

the industries the bank serves, (such as transportation, travel, hospitality, or similar) which may have been severely affected by COVID-19 closures. You may also be asked to supply information regarding the bank's liquidity, PPP loans, and TDRs.

Three-year Terms

Many carriers are backing away from offering 3-year terms, citing COVID-19 and financial uncertainty as reasons. Your carrier may only offer an annual quote at renewal.

Higher Deductibles, Retentions, and Premiums

Expect your carrier to ask you to accept more risk in the form of higher deductibles and retentions, especially if the bank has experienced double-digit growth since its last renewal. Premiums appear to be on the rise as well.

Be Sure to Review Exposures and Limits

Has the bank grown since its last renewal, and have you adjusted your coverage accordingly? Adjustments should be made as a result of lending exposures, new services offered, and new coverages developed since your last renewal.

Make Sure your Cyber Coverage is in Order

Cyber policies are rapidly changing and in addition to third-party coverage (suits brought against the bank by a third party), first-party coverage protecting the bank is expanding also. First-party coverages include the following expenses: forensics, to determine the cause and breadth of the breach, as well as breach notifications, public relations, credit monitoring, and business interruption expenses.

Insurance Tools to Save You Time

With the necessity of remote staffing and in-branch staff rotations, your bank needs to be as efficient as possible.

Consider one or more of the following insurance products which are designed to improve the bank's efficiency while offering important protections:

- Mortgage Impairment (real estate loans).
- Lenders Single Interest (installment loan collateral).
- Blanket Commercial Equipment coverage.

Insurance Review

In these unprecedented times, it is more apparent than ever to make sure your insurance policies have correct coverages and limits to cover your bank and your employees. United Bankers Agency (UBA) works exclusively with community banks and has access to the premier bank insurance carriers in the marketplace. If you would like a free insurance check-up or would be interested in a no obligation quote, please contact our UBA team.

Countering Workplace Bias

By Bob Greening, Vice President, USource

Whether we want to admit it or not, we all have implicit biases which affect the way we live and work in the world. When most people think of bias, they probably think of a negative action taken deliberately; however, there are unconscious biases that can affect your behavior or decisions. Unconscious biases are often based on mistaken or incomplete information and may negatively affect your team as well as your organization's bottom line. If you're hiring based on 'gut feeling,' your decision may be based on an unconscious (or implicit) bias. The best way to prevent yourself from succumbing to unconscious biases is to become aware of what they are, where they may pop up when recruiting, hiring and retaining employees, and how to prevent them.

Similarity or Affinity Bias is the tendency of people to connect with others with similar interests, experiences, and backgrounds. When companies hire for 'culture fit,' they could be falling prey to similarity bias.

Prevention measures: Take note of any similarities you share with the candidate or employee and differentiate between attributes that may cloud your judgement. Then, concentrate on concrete skills, experiences, and unique qualities that would contribute to your team as a 'culture add' rather than 'culture fit.'

Age Bias is discriminating against someone on the basis of their age or an assumption of age.

Prevention measures: Remove graduation dates from application forms. Realize that older workers may bring skills and experiences to the table that younger workers don't...and vice versa.

Attribution Bias is creating judgement regarding a person's behavior based on observations and interactions from your past, not necessarily with that specific person. For example, viewing others of a particular group (such as gender, race, ethnicity, etc.) as less competent, and undervaluing their accomplishments or overvaluing their mistakes because of it.

Prevention measures: Give honest, detailed feedback to everyone by tying it to concrete business goals and outcomes.

Appearance Bias is when those that are perceived as attractive (looks, weight, height, etc.) are viewed more positively and treated more favorably.

Prevention measures: Be aware of judgmental thoughts during interviews and promotional opportunities. Focus on their work, not their look.

Confirmation Bias is the tendency to look for or favor information that confirms beliefs you already hold. During the hiring process, it might involve forming an

initial opinion of the candidate based on inconsequential attributes like their name, hometown/country or even where they went to school.

Prevention measures: Build your own awareness about unconscious bias. It's important to ask standardized, skills-based questions that provide each candidate with a fair chance to stand out.

Conformity Bias, similar to groupthink or peer pressure, is very common in group settings. This type of bias occurs when your views are swayed or influenced by the views of others.

Prevention measures: Consider using structured interviews and wait to share your thoughts with coworkers until the process is over.

The Contrast Effect refers to distorting your perception of the performance of one person by comparing them to another.

Prevention measures: If you find yourself comparing two people, especially in the hiring process, write down why you are leaning toward one over the other. Be sure your assessment of each is based on individual credentials, not in comparison to the other candidate.

Gender Bias is assuming that someone is better for the job based on their gender or your preference to a specific gender.

Prevention measures: Try to use gender neutral language in job descriptions, so it won't resonate with one gender more than another. When thinking about development opportunities or promotions, try switching the gender of the person you're considering to see if it changes your perception of their readiness.

The Halo/Horns Effect is the tendency to think more highly of someone after learning something impressive about them or, conversely, perceive someone negatively after learning something unfavorable about them.

Prevention measures: Consider why you have this perception. Ask yourself if it stems from unconscious stereotyping based on race, gender, ethnicity, etc.

Name Bias is when you judge a person based on their name and perceived background. Be aware of this bias especially when reviewing resumes and selecting which candidates to interview.

Prevention measures: Remove candidates' names from resumes to ensure your choice is based on skills and experience, versus perceived background.

Awareness of the different kinds of unconscious bias is the first step toward putting processes in place to prevent them from interfering in recruiting, hiring, and retaining employees. Doing so will help your team build a more diverse and inclusive workplace.

United Bankers' Bank
Call Report (unaudited)
6/30/2020

Balance Sheet (000's)

Assets:

Cash and Due from Banks	\$ 295,105
Investments	\$ 91,510
Fed Funds Sold & Securities Purchased Under Agreement to Resell	\$ 4,638
Loans	
Outstanding	\$ 624,878
Loss Reserve	\$ (9,594)
Other Assets	\$ 32,930
TOTAL ASSETS	\$1,039,467

Liabilities and Capital:

Deposits	\$ 895,515
Fed Funds Purchased	\$ 26,539
Other Liabilities	\$ 8,160
Equity Capital	\$ 109,253
TOTAL LIABILITIES & CAPITAL	\$1,039,467

INCOME STATEMENT (YTD)

Interest Income	\$ 15,174
Interest Expense	\$ 3,314
Net Interest Income	\$ 11,860
Loss Provision	\$ 646
Net Interest Income (After Provision)	\$ 11,214
Other Income	\$ 8,762
Total Income	\$ 19,976
Operating Expenses	\$ 14,489
Securities Gains (Losses)	\$ -
Net Income Before Taxes	\$ 5,487
Tax	\$ 1,398
NET INCOME	\$ 4,089



Employee Spotlight
Elizabeth Wozniak
 Project Administrator, Consulting Services
 614-962-6526 • Elizabeth.wozniak@ubb.com

Family Members: Husband, Greg and son, Nicholas.

Pets: So far we only have fish, but Nicholas is angling for a dog, and soon!

What do you listen to on your drive to work: Contemporary Christian.

Interests: Running, working out, crocheting, Bible study, and serving my community.

If I could live anywhere in the world, I would live in: I love the United States, so it would be Sedona, Arizona.

If I could have one super power (besides flying) it would be: Teleportation.

Many people don't know that: I completed my first half marathon in June this year!

If I was not working in banking I would: Bring people with different skill sets together with the goals of serving our communities and bringing empathy to those who need to know they are not alone.

I started working at UBB in: 2010.

My favorite part of working for UBB is: The community spirit and work/life balance. I never feel distant from my supervisor or headquarters. I appreciate the spirit in which UBB adapts to changing environments and considers the family needs of its workers.

The best advice I ever got was: (1) You can't expect a fallen world to behave differently. (2) To think before you react.

First For Your Success means: Helping our customers to provide the best services possible to their customers.



Elizabeth and Nicholas at Hilliardfest, Art and Street Fair



Elizabeth with son, Nicholas and husband, Greg at Christmas



Elizabeth's son, Nicholas, in Ocean City, MD

ECCHO Rules: Member-Driven Changes

By Jenny Johnson, Director ECCHO

The ECCHO Rules are used for private sector (bank to bank) electronic check exchanges between ECCHO members. To stay current with the needs of the membership and with changes to regulations, the ECCHO Rules are revised as needed. For example, the Wrong Payee Credit adjustment was added to the ECCHO Rules to allow ECCHO members to send a credit to the paying bank for the drawer of the check when a check payment has been credited to the wrong payee (e.g., cable check payment sent to the electric company).

The process begins in working groups where ECCHO Members discuss topics related to the ECCHO Rules and electronic check exchange more generally. Members bring up the issues that are on their minds to deliberate with industry peers. Sometimes these issues result in a change to the ECCHO Rules, while other times the result is a whitepaper or educational presentation. Whatever the change, all ECCHO Rules changes go through ECCHO's member-driven approval process, and all ECCHO Rules apply in a uniform manner to ECCHO-governed exchanges.

As of July 1st, the ECCHO Rules were changed in order to accomplish two goals: 1) to add the ability to make an electronically-created item (ECI) indemnity claim via an adjustment claim; and 2) to perform "clean-up" maintenance on the ECCHO Adjustment Matrix and Exhibit V.

What are ECIs?

Under Regulation CC, "Electronically-created item" (ECI) means "an electronic image that has all attributes of an electronic check or electronic returned check but was created electronically and not derived from paper check". In 2018, Regulation CC added the ECI definition and the ECI indemnity. The ECI indemnity protects banks that receive transfer or presentment of an ECI from a loss that results from the fact that:

- 1 The electronic image or electronic information is not derived from a paper check;
- 2 The person on whose account the electronically-created item is drawn did not authorize the issuance of the item in the amount stated on the item or to the payee stated on the item, or
- 3 A person receives a transfer, presentment, or return of, or otherwise is charged for an electronically-created item such that the person is asked to make payment based on an item or check it has already paid.

Adding ECI Indemnity Claims to the ECCHO Adjustment Matrix

ECI indemnity claims can now be made by adjustment under the ECCHO Rules. To aid with both direct claims and claims made through the adjustment systems, ECCHO created a Sample ECI Indemnity Claim Letter and a Sample ECI Indemnity Disclaim Form (Sample letter/form can be found at https://www.eccho.org/returns_adjustments_resources). These helpful forms are available to the industry to make the ECI indemnity claims process easier and even have an instructions page. Note that these forms are optional and can be customized to fit your bank's needs.

Because ECCHO members wanted more time to learn about ECIs, they previously decided not to add the ECI indemnity claim to the ECCHO Rules in 2018 when the Federal Reserve added the ECI indemnity to Regulation CC. Instead, members voted to take a wait and see approach before adding the ability to make an indemnity claim through an adjustment system with financial entry. Making a "with entry" adjustment automatically debits, or takes the claim amount, from the warranting/indemnifying bank to which the claim is made.

Additional Changes to the ECCHO Adjustments Matrix

Another modification made to the Adjustments Matrix was to change the transaction type that the adjusting bank submits in a claim of damages due to underencoding from a credit to a debit. The ECCHO Adjustments Matrix incorrectly identified this category as a credit adjustment. If a bank is seeking financial compensation in a scenario in which the check has been underencoded, a debit adjustment is appropriate.

The other changes made to the adjustment matrix are simple clean-up changes that include:

- Cleaning up the grammar
- Adding regulatory and ECCHO Rules citations
- Clarifying requirements
- Cleaning up the formatting
- Spelling out abbreviations

If you are interested in learning more about the July 1, 2020 changes or seeing how the ECCHO Rules have changed over time, use your ECCHO login/password to view our Revision History page at <https://www.eccho.org/cc/>.

You can download the ECCHO Rules anytime.

ECCHO Members have access to our library of free education at <https://www.eccho.org/education>. Check out pre-recorded sessions on Check Basics, U.S. Treasury Checks, Cashier's Checks, Warranty Breaches and more.



Keeping the *Community* in Community Banking

Farmers & Merchants Bank of North Dakota • Grand Forks, ND

Just 90 miles west of Grand Forks, ND lies the town of Tolna where Farmers & Merchants Bank of North Dakota has stood at the same location, on Main Street, for over 100 years. A pillar of their community for more than a century, Farmers & Merchants Bank of North Dakota knows that hometown banking comes through “a smile, a handshake, a banker that knows your name, and neighbors helping neighbors.” We socially distanced with President, Bob Engen to learn more about how Farmers & Merchants Bank of North Dakota is Keeping the Community in Community Banking.

What is your community most known for?

Rich in agriculture, farming is the name of the game in our communities. Whether it's the cattle in the green pastures or the wheat blowing in the wind, North Dakota's Nelson County is something to be desired. Camping, fishing and tourism has increased over the last several years due to the growth of Stump Lake giving our small towns an extra economic boost. Our communities are proud to sustain a high level of self-sufficiency (bank, grocery store, café, churches, gas station, bar) stemming from community support and the added tourist revenue.

How is your bank involved in the community and what programs does your bank have to encourage community involvement?

The staff at the F&M Bank of ND makes up multiple positions in our communities. County Commissioners, hospital foundation boards, firemen, EMTs, city council members, church boards, community clubs and school boards are just some examples of how we contribute to our community.

What makes community involvement important to you and your bank?

We feel that it is truly an opportunity to live in the communities we serve. It is encouraged and stressed to those who work at the bank that supporting your community, not only financially but through volunteering, keeps it strong and growing for years to come. Loyalty to community keeps businesses thriving and provides hope that future generations may understand the value of community.

What do you like best about your community?

Our population might be small but the people who make up our communities are astonishing. It never fails; our communities always pull together and



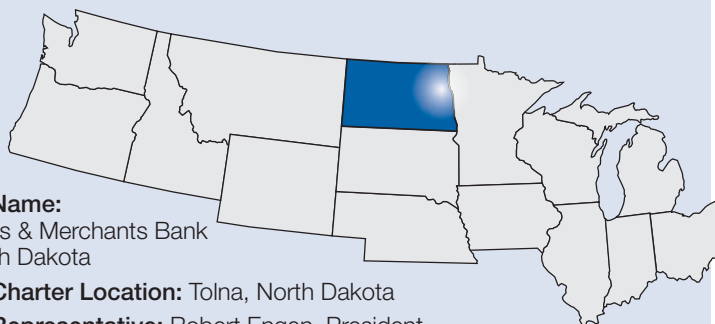
Lindsay Engen - “This is what we do.”



Bob Engen, President, and daughter, Lindsay



Plow Horses & Future Leaders



Bank Name:

Farmers & Merchants Bank of North Dakota

Bank Charter Location: Tolna, North Dakota

Bank Representative: Robert Engen, President

Asset Size: \$107 Million

Number of Locations: 3

Number of Employees: 21

Year Bank was Incorporated: 1917

City Population: 150

make things happen. Whether it's a person or family in the community experiencing hardships, a storm that has caused damage, or setting our minds to creating economic development, there is always strong community support to lend a hand.

What do you like best about being a community banker?

Being a community banker is not a career, it's a rewarding way of life. Since the beginning of my time with the bank, I was taught that the words we live by are “stop selling, start helping.” In today's technologically advanced and fast paced world, I find it to be a privilege to be able to say that our customers are not just an account number, we personally get to know our customers. Having the trust of others and helping in times of need as well as assisting customers throughout the years and watching them build personal and financial success, is why I enjoy going to work every day.

COVID-19's Early Impact on Community Bank Valuations

By Ed Usalis, Vice President – BankValue Advisory Services

The last several months will undoubtedly be remembered for their tremendous impact on the economy and daily life. The effects of the coronavirus pandemic can certainly be seen in the valuations of community banks. At first glance, these effects may not be exactly what you would think.

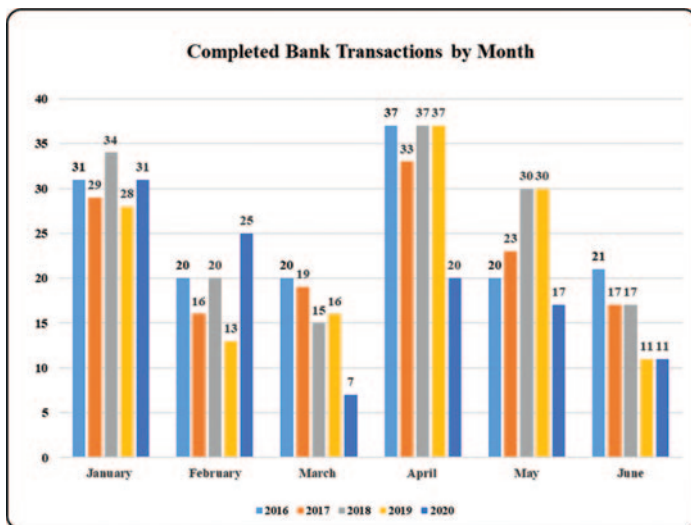
After a healthy number of transactions at the start of the 2020, the coronavirus pandemic put most M&A discussions on hold across corporate America, including banks. The graph, *Completed Bank Transactions by Month*, compares the number of completed bank transactions in the first six months of each the last five years. The number of transactions decreased in the months of March, April and May of 2020. However a modest level of M&A activity among banks continued. Greater uncertainty remains regarding M&A activity in the second half of 2020 into 2021.

Despite the slowdown in M&A activity, bank valuations, as measured by the price to earnings multiple of the SNL U.S. Bank Index, have recovered from their mid-

March lows (see *Price Earnings Multiple of SNL U.S. Bank Index* chart). The recovery of the P/E multiple is impressive and mirrors that of the broader market, however, we believe community bank valuations will be subject to considerable volatility for at least the next 18 months.

While banks are generally better capitalized than they were at the start of the 2008-2009 recession, the extent of future pandemic related credit losses remains unknown. Those banks with greater exposure to retail and hospitality will face the greatest risks. Risks created by the pandemic are further compounded by the current election cycle and ongoing trade tensions with China. The current “perfect storm” of risks complicates a community bank’s ability

to forecast for the future and this uncertainty will likely be reflected in lower valuations.



For more information on BankValue Advisory Services, contact Ed Usalis, Vice President, BankValue at **952-886-9525** or **Ed.Usalis@ubb.com**.

Announcements

The need for food donations has increased greatly as a result of the pandemic. In response, UBB held a virtual food drive to benefit Second Harvest Heartland, a Feeding America organization. Customers were given access to our virtual food drive site through social media. In just one month,



UBB employees and customers contributed \$3,380 to those facing food insecurity during this difficult time. A generous match from United Bankers' Bank of \$2,500 brought the grand total to \$5,880 to help equip food shelves across the US to fight hunger. That's equal to 17,640 meals!



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



INSURANCE SOLUTIONS For Community Banks

Insurance Policies Designed Specifically for Community Banks



Flood
Certifications



Cyber
Insurance



Forced Placed
Insurance (CPI)



Directors &
Officers (D&O)



Bank Hazard
Insurance

Benefits of working with United Bankers' Agency

1

Competitive Policy Pricing

UBB is able to leverage its vast number of customer relationships, to negotiate discounted prices with major insurance carriers and in turn pass those savings on to our community bank customers.

2

Access to Industry-Leading Providers

UBB has partnered with some of the insurance industry's leading providers to provide quality, comprehensive protection to our community bank customers.

To Request a Policy Quote

www.ubbinsurance.com



Tim Henry
VP, Managing Agent
United Bankers' Agency

tim.henry@ubb.com

Note: All products and services represented on this page are not insured by the FDIC or any other federal government agency, are not deposits of or guaranteed by the Bank or any Bank affiliate, and may lose value.