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Banking Marijuana Related Businesses

Nationwide, marijuana is now legal for medical purposes in 33 states and the District of Columbia, while recreational marijuana has been legalized in 11 of those states and the District of Columbia. This has far-reaching implications for financial institutions in the states where marijuana has been legalized in some capacity. Financial institutions are encouraged to define their risk tolerance for banking Marijuana Related Businesses (MRBs) and develop a risk-based policy addressing MRBs.

With no clear definition on what constitutes an MRB, the Small Business Administration (SBA) provides guidance to manage your institution's policy and help define the level of risk, if any, that your institution is willing to take. In 13 CFR 120.110 (h) the SBA states businesses engaged in any activity that is illegal under federal, state, or local law are ineligible for SBA business loans.

SBA Implications for MRB Activity

Additional guidance to address businesses that derive revenue from marijuana related activities or that support end-use of marijuana is provided SBA Policy Notice 5000-17057, effective April 3, 2018.

This states that because federal law prohibits the distribution and sale of marijuana, financial transactions involving MRBs would generally involve funds derived from illegal activity. Therefore, businesses that derive revenue from MRB activities or support end-use of marijuana may be ineligible for SBA Financial Assistance. Eligibility is determined by a business's operations. A "direct marijuana business" grows, produces, processes, distributes, or sells marijuana or marijuana products, edibles, or derivatives, regardless of the amount of the activity.

MRBs continued pg 2

Dwight Larsen named new President and CEO



During my first few months as the new President and CEO of United Bankers' Bank, I have been honored by the opportunity to personally meet with numerous UBB customers throughout our territory. From sitting in the "Big Green Chair" outside of the Richwood Banking Company in Richwood, Ohio, to attending

UBB hosted regional events and our annual Standard Bearer Grand Event, I truly appreciate the time you have taken to welcome me back to UBB and look forward to meeting with even more of you in the weeks, months and years ahead.

This edition of the UBB Independent contains a couple of important and timely articles that I would like to bring to your attention. As the legalization of marijuana spreads throughout our country, one issue at the forefront of community banks' concerns, is how to provide products and services to marijuana related businesses (MRBs) while staying compliant. Our featured cover story, written by UBB Compliance Services Specialist, Suzanne Rosenthal, discusses what banks should consider when deciding on MRB services.

With the continual advancements in technology, it is no wonder that many small businesses have broadened their reach to include the global economy. Do your small business customers have the tools and resources needed to operate internationally? Our Operations Division explains the rising need for International Payment Services and how your bank can address the expanding payment needs of your small business customers.

Stress is a factor for employees no matter what industry, field or position. USource's Bob Greening discusses the need to identify and mitigate stress when it affects your employees. From prevention to resolution, Bob discusses all aspects of management and HR roles in reducing employee stress.

As part of my initiation back to UBB, our Marketing Department insisted that I be featured in our employee spotlight, so jump over to page 4 to learn more about... me. Then, flip over to page 6 to see how Northwoods Bank in Park Rapids, MN is keeping the community in community banking.

I am so excited to be part of the UBB team again. As we continue to find new ways to serve you better, one thing won't change; we remain committed to being *First for Your Success*.

An “indirect marijuana business” derives any of its gross revenue from sales to Direct Marijuana Businesses of products or services that could reasonably be determined to support the use, growth, enhancement, or other development of marijuana. A “hemp-related business” grows, produces, processes, distributes or sells products purportedly made from hemp.

MRB Policy Development

A financial institution may also consider different levels of association when formulating their MRB policy. The first level, for example, would include entities that are generally referred to as MRBs - those that grow, process, transport, or dispense marijuana. A second level customer would include those that provide goods or services to the MRBs such as equipment vendors, suppliers, those providing security, and employees of the primary MRB. Third level customers could include property managers or landlords/property owners and professional service providers. A footnote in the FinCEN guidance distinguishes between an MRB and a non-financial customer that provides goods or services to an MRB, such as a landlord. This implies that a non-financial customer that provides goods or services to an MRB is not itself an MRB and although a SAR would have to be filed, it would not be a marijuana SAR as defined in the Cole Memo**.

A financial institution that is considering banking marijuana related businesses should first determine what the bank's risk tolerance is and how the activity will fit within the bank's strategic policy. As in other areas of AML/BSA, the bank should take a risk-based approach in making their decision about providing services to MRBs. Consider not just the risks of banking MRBs (including prosecution, onerous due diligence, monitoring, and reporting requirements, risks to employees and customers resulting from large amounts of cash being deposited, and reputational risk), but the possible benefits as well. Banking MRBs may provide a steady source of deposits, alleviate public safety concerns by helping to bring this activity out into the open instead of driving it underground, assist with tax collection, and enhance the bank's earnings performance. While the official position of regulators is to remain neutral and neither encourage nor discourage this activity, you should be prepared to share your strategy with your regulator and be open to suggestions from the regulator.

Your decision to provide or not provide services should

be addressed in a Board approved MRB Policy that addresses BSA requirements and FinCEN guidance. In addition, if your institution decides to provide services, the policy should address the resources (number of people, experience of people, any outsourcing that will be done, transaction monitoring systems, etc.) that will be devoted to managing these services. There should be a profitability analysis to document the overall financial impact taking into account resources and revenues. The Board of Directors should define and approve risk limits including the bank's risk appetite, the percent of capital that can grow from these businesses, the number of clients the bank is willing and able to take on, and what percentage of total deposits will be made up of MRB deposits. The bank will need a well-defined exit strategy showing how the institution can exit a particular relationship or the entire program quickly, if necessary.

FinCEN Guidance

Institutions that decide to provide services to MRBs, should look to FinCEN for guidance. The guidance clarifies how financial institutions can provide services to MRBs consistent with their BSA obligations and align the information provided by financial institutions in BSA reports such as CTRs and SARs with federal and state law enforcement priorities. It also states that a decision to open, close, or refuse a relationship requires an evaluation of the risks and the bank's ability to effectively

manage them. FinCEN's guidance also addresses the due diligence a bank must undertake if it wants to bank MRBs and requires that banks consider whether an MRB violates state law or implicates one or more of the Cole Memo priorities.



The FinCEN memo also provides guidance on the types of SARs that will be required when a Bank chooses to provide services to an MRB.

- Marijuana limited SARs are to be filed when a bank reasonably believes the MRB does not implicate one of the Cole Memo priorities or violates state law.
- Marijuana priority SARs are to be filed when a bank reasonably believes the MRB implicates one of the Cole Memo priorities or violates state law.

** The **Cole Memo** told states that prosecutors and law enforcement should focus on the following priorities to avoid federal interference: Prevent distribution of cannabis to minors. Prevent cannabis revenue from funding criminal enterprises, gangs or cartels. Prevent cannabis from moving out of states where it is legal.

- Marijuana termination SARs are to be filed when the bank deems it is necessary to terminate a relationship with an MRB in order to maintain an effective AML program.

Banks must conduct ongoing due diligence of MRBs with special attention paid to red flags that an MRB may be engaged in activity that implicates one of the Cole Memo priorities or violates state law. Red flags may include, but are not limited to:

- A customer appears to be using a state-licensed marijuana-related business as a front or pretext to launder money derived from other criminal activity (i.e., not related to marijuana) or derived from marijuana-related activity not permitted under state law.
- The business is unable to produce satisfactory documentation or evidence to demonstrate that it is duly licensed and operating consistently with state law.
- The business is unable to demonstrate the legitimate source of significant outside investments.
- A customer seeks to conceal or disguise involvement in marijuana-related business activity.
- A review of publicly available sources and databases about the business, its owner(s), manager(s), or other related parties, reveal negative information.
- The business, its owner(s), manager(s), or other related parties are, or have been, subject to an enforcement action by the state or local authorities responsible for administering or enforcing marijuana-related laws or regulations.

- A marijuana-related business engages in international or interstate activity.

To MRB or Not MRB

The decision to provide banking services to MRBs requires careful analysis, planning, and Board oversight. Any financial institution that decides to provide services should have a well-developed, risk-based MRB Policy that clearly defines the services provided, the risks of providing the services, and how risks will be mitigated including the allocation of resources and managerial and executive oversight. The policy and procedures should allow the bank to offer these services without a significant change to its overall risk profile. The bank should set a fee schedule that covers the costs associated with offering the services and allows for profitability. Adherence to any agreement between the bank and the MRB should be strictly enforced with a zero-tolerance policy for activity that contradicts the terms of the agreement. The bank should also have a well-developed exit strategy to allow for an exit of the individual relationships or the entire program quickly and without adverse effect. While many financial institutions are wary of providing these services, over 350 financial institutions in the United States are currently doing so and for those who decide to offer the services, if done right, the benefits can outweigh the risks.

***Editorial Update:** On Wednesday, September 25, 2019, the SAFE Banking Act (H.R. 1595) was passed through the House by a bipartisan vote of 321-103.

Get to Know: UBB Asset Liability Management Team

United Bankers' Bank's ALMEdge model provides community banks with concise readings on their liquidity, earnings, interest rate and yield curve risks, in



addition to capital position. At the backbone of this suite of management tools and services that are trusted by over 200 banks, is a team of talented and highly skilled advisors. This team, led by Vice President of Risk Management, Jim Nowak, assists their customers in managing their bank's balance sheets by providing them with innovative and customized consultative tools and information.

Take a minute to get to know the UBB Asset Liability Management team.

ALMEdge Team led by Jim Nowak,
Vice President, Risk Management.

Left to Right: Maria Zepeda,
Luke Teigland, Jim Nowak

United Bankers' Bank
Call Report (unaudited)
9/30/2019

Balance Sheet (000's)

Assets:

Cash and Due from Banks	\$ 123,284
Investments	\$ 15,369
Fed Funds Sold & Securities Purchased Under Agreement to Resell	\$ 43,016
Loans	
Outstanding	\$ 628,709
Loss Reserve	\$ (8,637)
Other Assets	\$ 32,580
TOTAL ASSETS	\$ 834,321

Liabilities and Capital:

Deposits	\$ 648,477
Fed Funds Purchased	\$ 74,208
Other Liabilities	\$ 6,860
Equity Capital	\$ 104,776
TOTAL LIABILITIES & CAPITAL	\$834,321

INCOME STATEMENT (YTD)

Interest Income	\$ 25,182
Interest Expense	\$ 7,088
Net Interest Income	\$ 18,094
Loss Provision	\$ 779
Net Interest Income	\$ 17,315
(After Provision)	
Other Income	\$ 11,847
Total Income	\$ 29,162
Operating Expenses	\$ 24,318
Securities Gains (Losses)	\$ —
Net Income Before Taxes	\$ 4,844
Tax	\$ 1,221
NET INCOME	\$ 3,623



Family Members: Mary Beth, Rachel, Annika, Lucas, Nathan, and Emma.

Pets: None; but I do have “peeves”.

What do you listen to on your drive to work: Eclectic interests; classic rock & pop, modern country, NPR.

Interests: Indie documentaries, new restaurants of any ethnic food, traveling with family and friends, and staying active.

If I could live anywhere in the world, I would live in: Tiburon, California. It is in close proximity to San Francisco with wonderful access to wine country and outdoor activities.

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

Many people don't know that I have: (1) been an extra in two movies; (2) been to five continents in the last two years, and (3) completed 41 sprint triathlons in the past ten years.

If I was not working in banking I would: Be teaching at a university.

I started working at UBB in: 2000.

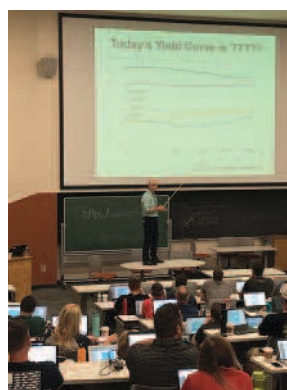
My favorite part of working in banking is: Interacting with our great team and community bankers. I'm blessed to have formed a lot of great relationships over the years from this experience.

The best advice I ever got was: Be authentic and remember where you came from.

First For Your Success means: Remembering to do what's best for both our customers and UBB, so that we both remain relevant for a very long time!



Dwight in Taormina, Sicily.



Dwight teaching at University of Wisconsin Graduate School of Banking.



Picking up sprint triathlon medal.

HR and Managers: Partnering to Help Employees Deal with Workplace Stress

By Bob Greening, Vice President, USource

Knowing how and when to help employees navigate stressful work relationships and assignments is critical to fostering a productive and engaged workforce. HR and managers can partner to make this happen by coordinating efforts and working together.

Employees can often be heard expressing their need for a break or desiring to take a “mental health day”. Work stress is the third most prevalent type of stress, behind money and relationships, with a work/life balance playing a contributing factor.

Heavy workload, lack of support, no input in decision-making processes, unclear performance expectations, ineffective time management skills, and failure to utilize available paid time-off are some of the many reasons for employee stress at work. HR and managers should work together to help employees cope with such stresses.

Look and Listen - As a manager, it is important to pay attention to your employees. When you observe your employees in action, do they appear to be overwhelmed? Are they agitated when speaking with you or coworkers? Do they express concern or anxiety over a project or deadline? What words are they using to describe their workload? Has their demeanor changed?

If you notice that an employee's mood has changed and appears more stressed than usual, it's time to initiate a conversation on how you can help. HR training can help you stay focused on the job-related points without venturing into discriminatory behavior.

Provide Clarity - Managers should have a broad view of the department's productivity and goals, as well as what each employee is working on at any given time. Managers can plan projects and set appropriate deadlines for work. However, employees may need guidance on reassessing to-do lists and understanding priorities, direction on how the work is to be completed and information on assistance available to get specific projects done. Don't be afraid to get in the trenches with your employees and work side-by-side to complete an important task. HR can help facilitate goal setting for employees and performance management.

Foster Teamwork - Personality conflicts can contribute to stress, and managers play a significant role in fostering teamwork and mediating disputes. It is critical that managers address conflicts both timely and effectively to avoid escalation. HR can provide tools and guidance on how to properly investigate, document and coach employees to resolve their discord.

Acknowledge Humanity - Employees are people. They have responsibilities and stressors outside of their work. It is critical for employees to recharge after the workday and workweek. Enable employees to have a healthy work-life balance by providing them the opportunity to connect with family and friends and to rest and take care of themselves.

Managers should encourage employees to limit checking emails after business hours and to take earned vacation time. Supervisors should know what leaves of absence their employees are entitled and support employees when taking leave to care for themselves or family members. HR can provide guidance on what is and is not allowable.

Encourage Exercise - Urge employees to take breaks, stretch and move around for a few minutes several times a day. A change of scenery can help employees gain a fresh perspective on the task at hand and clear their minds for more creative thinking. Physical activity can aid in alleviating tension and increasing blood flow. Fostering group break options (group walks, healthy snacks, etc.) promotes teambuilding and comradery.

Provide Training - Empower your employees with access to resources that enable resiliency such as stress management, time management or conflict resolution instruction. Employees can train on their own or through a program developed through HR.

Promote Benefits - Managers should be champions of the company's benefits programs, especially those related to mental and physical well-being. HR should be active in educating all employees on what's available to them. For example, an employee assistance program is useful for employees experiencing stress or needing to cope with difficult situations. Managers are not professional counselors and should not act as such.

Stress continued pg 7



Keeping the *Community* in Community Banking

Northwoods Bank of Minnesota • Park Rapids, Minnesota

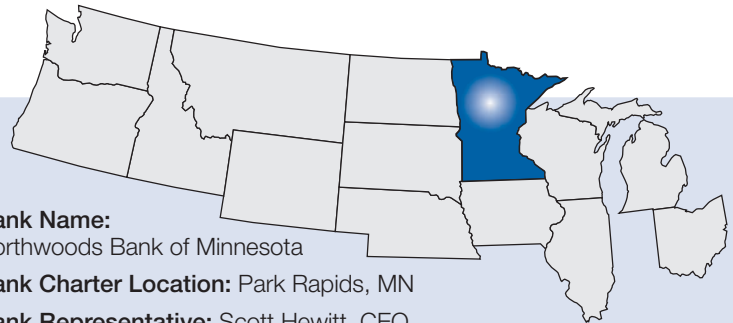
Located in the Heartland Lakes region of northern Minnesota, resides Park Rapids, a picturesque community and nature enthusiasts dream. Headquartered on the east side of town is Northwoods Bank, a 5th generation, family owned bank that recently celebrated its 100 year anniversary. Originally organized as the Farmers State Bank of Dorset, Northwoods Bank began its operations out of a general store in Dorset Minnesota where, in the 1950s, they would be famously recognized by Ripley's Believe it or Not as the nation's smallest town with a bank. The Hewitt family has been synonymous with community banking throughout Hubbard County for over a century. We spoke with CEO, Scott Hewitt, to learn more about how Northwoods Bank is *Keeping the Community in Community Banking*.



"Northwoods Knows" Presentation



Northwoods staff presenting check for scoreboard



Bank Name:

Northwoods Bank of Minnesota

Bank Charter Location: Park Rapids, MN

Bank Representative: Scott Hewitt, CEO

Asset Size: \$121 million

Number of Locations: 4

Number of Employees: 31

Year Bank was Incorporated: 1919

City Population: Park Rapids, MN – 4,214;
Nevis, MN – 413, Pine City, MN – 3,127

What is your community most known for?

We are known as a great place to live, retire and vacation. Located just 20 miles south of Itasca State Park and the Headwaters of the Mississippi River, our numerous pristine lakes, forests and natural resources attract thousands of seasonal residents and tourists each year who enjoy great fishing, recreation, hiking, biking and more. Park Rapids is also known for our unique Main Street that offers parking in the middle of the street! Nevis is home to the largest Tiger Muskie statue in the world and Dorset is known as "the Restaurant Capital of the World" with 4 restaurants in a town of just 22 people.

How is your bank involved in the community?

We donate thousands of dollars each year to many different organizations and staff members volunteer and serve on numerous non-profit boards. Several years ago, we helped resurrect and sponsor the Fireman's Ball which raises thousands of dollars annually for the local volunteer fire department. We offer our Community Room, a large meeting room in the basement of the bank, free of charge to non-profits and community members. We also host complimentary "Northwoods Knows" financial education classes to community members on a quarterly basis.

A major focus of our community involvement centers on the youth. We donate office space to Kinship, an organization that promotes youth mentoring. Several employees are or have been mentors. We also sponsor an ACEs (Adverse Childhood Experiences) workshop, in addition to a new scoreboard for the high school football team, renovations to school playground equipment, 2 annual scholarships and many other youth focused activities.

Do you have any goals or programs in place to encourage bank employees to be active in the community?

We provide everyone with 8 hours of Volunteer Time Off to use in addition to their regular PTO so employees can volunteer during business hours without using their personal time off. We also offer financial incentives to participate in bank sponsored community events, such as a tailgating party before football games to benefit the schools' athletic programs.

What makes community involvement important to you and your bank?

The success of our community and the success of our bank go hand in hand, so it is important for us to make sure that we do our part.

We are very thankful to the communities we serve for all of their support and for helping to make this a great place to do business through the past 100 years.

What do you like best about your community?

This is a small tight-knit community, yet we have many of the same amenities a larger city might offer, such as great restaurants and shopping, live theatre, light opera, museums, art exhibitions and the biggest Fourth of July fireworks display in the State! There is the small-town feel of knowing your neighbor, friendliness, etc. with the perks of a larger city.

What do you like best about being a community banker at Northwoods Bank?

It is great to watch our customers and community grow and prosper. From the young couple we helped buy their first home, to the small business owner we provided the financing to get started and watched their business grow, to the community organizations our staff members help lead as volunteers and board members; I like to think that we, as a bank, have had some small part in their success, and that is very rewarding.

SMALL BUSINESS ISN'T SO SMALL

By United Bankers' Bank Operations

Whether we realize it or not, globalization affects every single part of our lives, from our morning latte to our late-night snack and virtually every product and service we use in between.

Over the past decade, thanks mostly to advances in technology, we've seen globalization really change the nature of small business, which now commonly engages in all facets of international activity including commerce, investment and travel.

According to the U.S. Census Bureau and Small Business Administration, there are more than 300,000 corporations involved in the export of goods or services. More than 97% of these are small businesses that conduct 30% of all exports flowing from the U.S.

People may not realize the importance of American small businesses to the overall health of the global economy.

Consider that international trade as a whole represents approximately 27% of the U.S. Gross Domestic Product (GDP) output according to the World Bank. And then, factor in that the U.S. is the world's largest contributor to economic output, representing approximately 25% of global GDP according to Statistics Times.

In this context, we can see that small U.S. exporters and importers are making a serious contribution to the world.

It's easy to underestimate the needs of small businesses, thinking them to be simpler or more local than they really are.

The reality is they have the same need for 'wherever, whenever' online banking services as their multinational counterparts. They gravitate to financial institutions that get this, and that also recognize their need for international services.

It's our job at United Bankers Bank to help you be at the front of the pack when it comes to international payment services. And we've been tracking the evolving needs of small businesses closely to help you keep pace, and help improve your market position within this segment.

We know small businesses are integral to your institution, and that's why we've made sure our web-based global payments network is suited for companies of every size.

If your small business clients don't already have access to online and mobile cross-border payments, we can help you take the next step in meeting their needs. Please contact UBB Operations at 800-558-6878 to learn more.

Stress from pg 5

Additionally, HR should ensure the medical plans provided to employees include access to outpatient and inpatient mental health treatment, medication and counseling. Many medical insurance companies now offer "tele-doctors" for individuals who have difficulty seeing a physician face-to-face, as well as perks and discounts to gyms and fitness-related services that employees may not be aware of.

As mentioned earlier, money issues are a leading cause of stress. Providing employees with financial wellness benefits can help them gain control over

their financial well-being. It is also important to share these resources throughout the year – not just during open enrollment.

In summary, work is stressful for many people, and managers are in a unique position to help mitigate that stress by coaching and helping employees deal with and avoid stressful situations. Knowing how and when to help employees navigate stressful relationships and projects is a critical component of a manager's role in helping to foster a productive and engaged workforce. An effective HR team should be right there as well, listening, collaborating, coaching and leading.



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

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