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

UBB First for Your Success™

Independent

Winter 2021

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Member FDIC

This Issue:

Foreign Checks: Reward vs. Risk

By UBB Operations

Providing your customers with a complete range of foreign exchange services is critical to succeed in today's competitive environment. International services may be the smallest piece of business you have with your clients. But if you don't offer it, your best customers may need to deal with your competitor, and you risk losing their business.

United Bankers' Bank offers a full suite of international services, including wires, check clearing and foreign currency. It's important to understand the risks when you perform foreign exchange transactions for your clients. Today, we'd like to focus on foreign check clearing, its risks as well as the benefits of providing it to your customers.

Timing

Return rules in other countries do not mimic the rules in the United States. Because we are governed by US laws and banking regulations, we are accustomed to receiving returns in a timely manner. Foreign banks may return items for the same reasons as in the US such as non-sufficient funds,

Foreign Checks continued pg 2

Dwight Larsen A note from the President

That start of a new year generally stirs up a varying range of feelings, from hopeful and excited to concerned and cautiously optimistic and everything in between. Throw in the adversity and challenges we all faced in 2020, and it's safe to say that the year 2021 might be the most welcomed flip of the calendar of all time. Much like the community banks we serve, United Bankers' Bank continues to adapt and adjust to our current environment, finding new ways to serve the needs of our customers. The impact of 2020 forced us to be more resourceful and innovative, pushing us to identify new ways to operate with the vast majority of our staff transitioning to working from home. As a result, we've leveraged technology to streamline processes, facilitate communications with customers and staff, and expand our service capabilities, all while ensuring that we're delivering the same high level of service our customers expect from UBB. While no technology will ever replace the importance and effectiveness of in-person communications and interactions, I do believe that some of the changes adopted over the course of the year are here to stay, and we will all be better for it.

In this issue's cover story, the experts in our operations department explain the ins and outs of Foreign Checks. As is with any product, there are risks and rewards to consider, and this article does a great job explaining them both as they relate to International Payments.

Our Vice President of BankValue, Ed Usalis, provides an overview of the changes in community bank valuations over the past year, highlighting how well the community banking industry adapted to the changing times.

This is a time when many banks conduct their review processes and restart the hiring of new talent that may have been halted over the holiday season and by end of year budgeting. As you begin this process, Bob Greening, Vice President of USource, offers direction regarding salary negotiations along with tips on how to achieve a win-win agreement for both your bank and its current or prospective employee.

Sandhills Bank in Myrtle Beach, South Carolina, discusses how they've been strengthening connections to the communities they serve over the past 60+ years, in *Keeping the Community in Community Banking* on page 6. Then, flip over to page 4 and learn more about Jillian Johnson, Operations Customer Service Officer, in our employee spotlight.

With the New Year, we are introducing a new feature to the Independent, where our product experts will provide answers to questions they receive most frequently from customers. In this issue, we hear from our UBB Compliance Services team, who addresses the laws and regulatory implications of adding a chat feature to your bank's website.

The events of the past year were a transformational period for community banking. I'm encouraged by the resiliency community bankers have shown throughout the pandemic and am excited for the challenges and opportunities a new year presents. While I don't have a crystal ball to predict when our lives will start to truly feel "normal" again, one thing that I am sure of, is that regardless of the times, you can always count on UBB to be in your corner and by your side. My hope for all of you is a healthy, happy and prosperous new year and as always, UBB is *First* for Your Success.

stop payments, and fraud, but these items may come back to you several months after your original deposit. You should consider your customer and the amount of the transaction. The "Know Your Customer" rules should always apply.

Exchange Rate Risk

When you send in a cash letter with a check payable in a foreign currency, such as Canadian dollars, you are essentially "selling" that check for US Dollars to credit your customer. At the time of that transaction, an exchange rate is committed. You receive credit for the amount quoted once your check is received for processing.

Consider that if the check is returned, a new transaction is occurring. At that time, the "paying bank" is refusing payment of the check, and you must "buy" the check back. In general, this exchange rate will be less favorable than your original "sell" rate and may also be impacted by any number of factors such as economic conditions or the time that has passed since the check was presented. All things being equal, your bank is likely to take a loss on the transaction if the check is returned. The larger the check, the larger the potential loss.

Risk Mitigation

The increased risk associated with these transactions requires greater scrutiny on your part. There are some ways to mitigate your risks to handle these items and reduce the risk for your bank and your customer.

- **Check Image Clearing**
  The Canadian Banks now accept images of most Canadian checks. This digital process has decreased return times and saved our bank customers shipping fees. Items drawn on Canada are now returned in 2-3 days as opposed to 2-3 weeks. The risk of the exchange rate changing significantly is greatly reduced.
- **Know your customer**
  Understand why they are receiving foreign checks. If you credit your customer immediately, you are essentially providing an unsecured loan until you receive credit for those funds.
  Ask questions to protect your client from scams and the bank from losses and consider the following:
  - Is it unusual for your customer to receive a foreign check?
  - Have they potentially fallen victim to fraud?
  - If the check is returned in 6 months or more, will your customer have funds to cover the return?
  - Will they still have an account with you?
  - Will they be able to cover any loss due to exchange rate?
- **Establish limits**
  You should have policies regarding limits for the dollar amounts you will process. Treat each transaction as a credit risk on a per-customer basis.
- **Hold funds**
  Checks payable in other currencies are not subject to the same requirements as our daily US cash letter.
- **Send for collection**
  Sending a check "for collection" is different than sending out a cash letter. A collection check is expensive and takes approx. 4-6 weeks to receive credit.

  The process includes:
  - The check is sent to the paying bank requesting payment.
  - The paying bank will verify funds are available and that there are no stop payments associated with the item, etc.
  - Although there is no guarantee that the funds will be paid, once they *are* paid they are considered good.
  - Large foreign checks should be sent for collection based on your customer's risk tolerance.
  - Suspicious checks should always be sent for collection or refused outright.
- **Suggest a wire transfer**
  Suggest to your client that they request a wire transfer from the payor. Wire transfer funds are the only payment where you can be assured the settlement is "final". Foreign wire details can be provided, so the check issuer can send a wire transfer just like a local payment. This is much faster than collection items and more cost effective then check clearing.
- **Report suspicious activity**
  As part of your regular BSA requirements, you should consider filing a SAR when you see suspicious activity. Unusual transactions for your customers and returns of fraudulent items should trigger investigation.

If you have questions or concerns about a transaction, please call us BEFORE processing the request.
We are here to help!

Salary Negotiation: Guidance for a "Win-Win" Agreement

By Bob Greening, Vice President, USource

A salary negotiation window exists from the time you offer a job to a candidate until the acceptance of that job by that candidate, and the results can leave a candidate feeling wanted by your organization or devalued. At the same time, the results can also leave the employer excited to welcome their new hire or feeling as if it lost. Successful salary negotiations happen when both the employer and employee are satisfied and feeling ready to get started on a long-term, successful relationship. To facilitate this desired outcome, there are several things to consider.

Bargaining Room: How much leeway is the individual representing your organization allotted for negotiating salary and other conditions of employment? This answer can vary greatly depending who is involved in the hiring process. The level of position could also afford you more bargaining room for higher-level employees, those who will be the sole employee performing particular duties and potential hires with a higher level of experience. Be advised, these individuals are prone to asking for additional perks and benefits if they can't obtain a higher salary.

Salary Range: To save valuable time and effort, employers might prefer to provide general salary range information in their job listings or during screening interviews. This will cut down on the number of under or over-qualified applicants who are willing to settle for any position. The goal is to attract qualified candidates who will work out for your bank. Use fair market value for the job as well as economic conditions with the local job market and industry to determine the salary range for the position. Also, organization specific factors may affect the given salary such as comparative jobs, culture, pay philosophy and promotion practices

How badly do you want/need this candidate?
Another thing to consider in bargaining room is how badly your organization needs this employee, and how much difficulty you have in finding their specific skill set, which may be scarce in certain areas. While this can increase your bargaining room, if you are too needy, your salary negotiation strategy will quickly turn into a capitulation. Paying more than you can afford, compensating disproportionately to the pay ranges of your current employees and granting a new employee's salary and benefits outside of your comfort zone is bad for the employer and bad for the candidate.

Even if you are convinced of the candidate's potential positive impact within your organization, most organizations have limits. You likely will regret violating your limits; even if you have to start your recruitment over, you may save yourself years of headaches and excessive costs. The new employee's work may be overly scrutinized with higher employer expectations, and fellow employees may resent the negotiated salary or other conditions of employment, viewing the new employee as a prima donna.

Your organization has probably invested significant time and energy in finding and getting to know your final choice. More sophisticated candidates, higher level candidates and those with significant career progress will often counter your initial offer. Even entry-level candidates may ask for more than your original offer; so be ready!

Though recommended, when multiple people conduct interviews, you may have little control over the job/performance expectations expressed, as well as how the candidate views the position after their interviews. When there are multiple interviews, strongly consider determining ahead of time who can say what… and when.

Again, salary negotiation is not about winning—unless both parties win. If either party feels they have capitulated, not negotiated, both parties lose. Know your salary negotiation limits, and base them on your internal salary ranges, the salary paid to employees in similar positions, the economic climate and job searching market, and the profitability of your organization.

Recognize that superior candidates will negotiate with you in other areas that may exceed salary such as benefits, paid time off, a signing bonus, flexible schedule, teleworking and more. And finally, be up front with the candidate if your initial offer is not negotiable or barely negotiable when making the job offer or even before. This will prevent you from spinning your wheels and wasting valuable time.

Bob Greening, Vice President, USource HR Management Services • usource@ubb.com • 866-394-1984

United Bankers' Bank
Call Report (unaudited)
12/31/2020

Balance Sheet (000's)

Assets:	
Cash and Due from Banks	$ 454,835
Investments	$ 194,261
Fed Funds Sold & Securities Purchased Under Agreement to Resell	$ 20,072
Loans	
Outstanding	$ 653,705
Loss Reserve	$ (12,203)
Other Assets	$ 33,617
TOTAL ASSETS	$1,344,287
Liabilities and Capital:	
Deposits	$1,011,487
Fed Funds Purchased	$ 211,836
Other Liabilities	$ 7,875
Equity Capital	$ 113,089
TOTAL LIABILITIES & CAPITAL	$1,344,287
INCOME STATEMENT (YTD)	
Interest Income	$ 29,524
Interest Expense	$ 5,421
Net Interest Income	$ 24,103
Loss Provision	$ 3,486
Net Interest Income (After Provision)	$ 20,617
Other Income	$ 19,180
Total Income	$ 39,797
Operating Expenses	$ 29,875
Securities Gains (Losses)	$ –
Net Income Before Taxes	$ 9,922
Tax	$ 2,477
NET INCOME	$ 7,445

Employee Spotlight

Jillian Johnson

Operations Customer Service Officer
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Family Members: Husband - David and daughters - Josephine (JoJo) is 2½ and Vivienne is 9 mos.

Pets: Louie, German Shepherd, is 5 years and Bandit, Holland Lop Rabbit, is 7 years.

What do you listen to on your drive to work: My daughter questioning and talking about what she sees on the way to daycare/work. We have very in depth conversations about garbage trucks, the moon, and every piece of construction equipment at Ziegler Cat in Bloomington, MN.

Interests: Customizing cars/trucks, car shows, mountain biking, and hiking.

If I could live anywhere in the world, I would live in: a Target store.

If I could have one super power (besides flying) it would be: the power to heal others and/or time travel.

Many people don't know that: I was the kid that brought home all the neighborhood strays. Oh, who am I kidding, I still do!

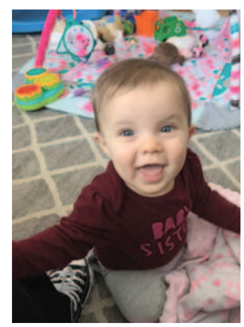
If I was not working in banking I would: be a veterinarian.

I started working at UBB in: March, 2014.

My favorite part of working for UBB is: the relationships I have formed.

The best advice I ever got was: "If you hear weird noises in the night, make weirder noises to assert dominance."

First For Your Success means: Aligning our journey and goals to meet the needs of our banks and their customers.



Jillian's youngest daugter, Vivienne

Jillian and family, Christmas 2020

Jillian Skating with husband and oldest daughter, JoJo

Community Bank Valuations and the End of the Pandemic

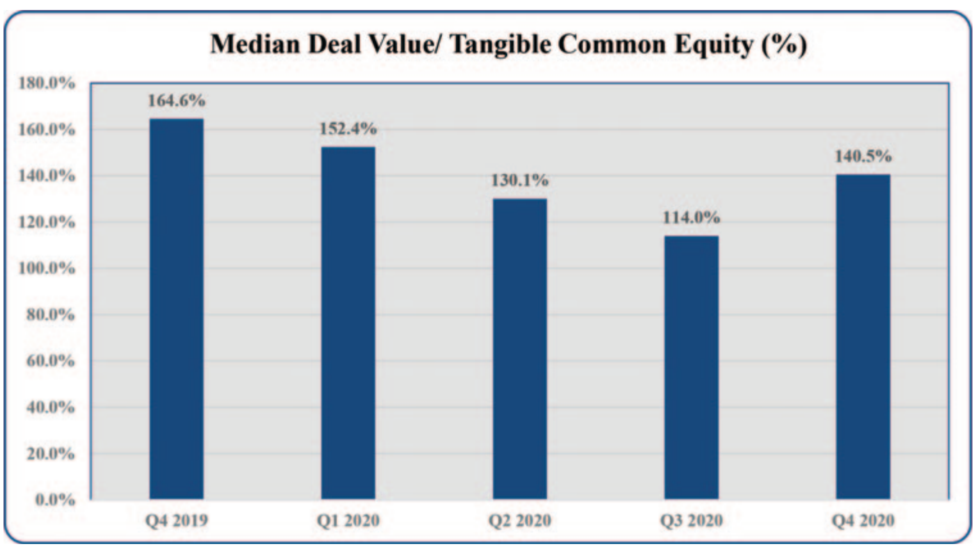
By Ed Usalis, Vice President, BankValue

The ongoing effects of COVID-19 seem to evolve daily causing the long-term economic impact of the pandemic to stay uncertain. Bank stocks remain depressed relative to where they began in 2020, however they did show sustained improvement as the year ended.

To provide perspective, the S&P 500 Index increased 15.29% in 2020 compared to the declines of 15.52% in the SNL Small Cap Bank Index and 16.43% for the SNL Bank Index. The performance of each of these indexes is presented in the 2020 Market Performance graph.

Source: S&P Global Market Intelligence (www.marketintelligence.spglobal.com)

While the pandemic's effect on public bank stock prices has been quite dramatic, the financial performance of community banks has shown resiliency. According to the FIDC's Quarterly Banking Profile, nearly half of all community banks (48 percent) reported higher quarterly net income in third quarter 2020 compared with third quarter 2019. Furthermore, total loans and leases grew $17 billion (1 percent) from second quarter 2020 to $1.7 trillion. Given this financial performance, it was not surprising to see the valuations for whole-bank transactions increase in the fourth quarter of the year.



Source: S&P Global Market Intelligence (www.marketintelligence.spglobal.com)

Given the COVID induced slowdown in whole-bank transactions and recovering deal values, many believe that the next several years should reveal considerable M&A activity. This activity will likely be fueled by historically low interest rates, increased liquidity and heightened competition for loan growth. In light of this environment, community bank management and boards will want to remain focused on those activities that will enhance shareholder value.

Ed Usalis, Vice President, BankValue • 952-886-9525 • ed.usalis@ubb.com

Keeping the *Community* in Community Banking

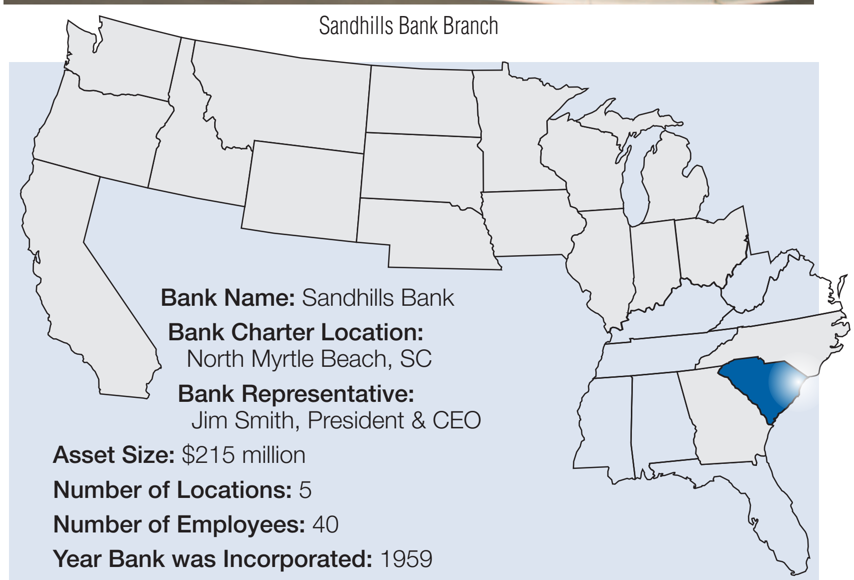
Sandhills Bank • North Myrtle Beach, SC

With accolades such as one of the "Most Excellent Places to Travel" and "Top 15 Beaches on the East Coast", Myrtle Beach is a well-known vacation destination. Located just 15 miles from Myrtle Beach's Boardwalk, Sandhills Bank takes pride in their "Your Big Bank Alternative" slogan and has been building strong connections to the communities it serves for over 60 years. We met with Jim Smith, President and CEO of Sandhills Bank, to learn more about how they are *Keeping the Community in Community Banking*.

Customer Day, July 2019

Sandhills Staff at Benefit Relay in 2020

Sandhills Bank Branch



Bank Name: Sandhills Bank

Bank Charter Location: North Myrtle Beach, SC

Bank Representative: Jim Smith, President & CEO

Asset Size: $215 million

Number of Locations: 5

Number of Employees: 40

Year Bank was Incorporated: 1959

City Population: Greater Grand Strand area has a permanent population around 400,000 people.

What is your community most known for?
The Grand Strand is known for its family-friendly beaches and proximity as a great driving destination for states all along the east coast.

How is your bank involved in the community and what programs does your bank have to encourage community involvement?
Our offices have community rooms available for civic meetings, and we host many car wash fundraisers for youth and school groups. Our associates participate in service to area foundations, chambers of commerce and the United Way of Horry County.

Do you have any goals or programs in place to encourage bank employees to be active in the community?
The bank has a training program that provides job opportunities to young college students and graduates wanting to learn more about banking. This year, the CARES Act and PPP created the need for an entire team of college interns to join our team and focus exclusively on processing these loans. Several of these temporary employees were offered permanent positions.

What makes community involvement important to you and your bank?
We are a true community bank, the smallest in our area, and we believe in our mission to serve the local community. Our customers are our friends and neighbors, therefore we believe it is very important to band together in times of prosperity as well as strife.

What do you like best about your community?
Since our population swells during the summer to several million people, our community offers numerous aspects seen in larger metropolitan areas, however it is still a small series of beach communities. The temperate climate attracts new residents from across the country, so we have an excellent representation of cultures throughout the United States and North America.

What do you like best about being a community banker?
Community banking allows a banker to truly form a relationship with a customer. Instead of feeling like products and services are transactional in nature, community bankers benefit by seeing the long-term impacts of the financial assistance and advice provided to friends and clients. That makes it far more rewarding!

Compliance Q & A

By Jeff Thompson, Vice President, Managing Consultant, Compliance

Q: We are considering the addition of a chat feature to our website to communicate with customers. What laws, rulings, regulations or agency guidance will affect this new feature?

A: This depends a lot on the architecture you use to roll this out. If you are doing this on your website where anyone can use it, you'll probably have to add extra disclosures and disclaimers. However, if you only allow the chat function for registered customers through your online banking function, your compliance risks decrease significantly because you should have already provided those customers with many of the relevant disclosures.

The FDIC created a Social Media Guidance, found at https://www.fdic.gov/news/financial-institution-letters/2013/fil13056.html#cont, which you may find useful. This guidance includes a checklist for all the compliance issues that may affect your chat function. How you design this function in conjunction with other online functionality will determine which items apply and which you've already dealt with in disclosures and disclaimers. You will have to write your policies/procedures to match your process, and you'll likely need a few pre-scripted responses for specific chats your team may encounter. For instance, your chat technician is walking through a specific account question with a customer. The customer offhandedly asks, "What is the bank's current rate on a HELOC?" Because the communication of those rates/APRs needs to follow Reg Z, your chat technician should have scripted disclosures and disclaimers readily on hand. A seasoned branch manager or someone similar should help to ensure the right answers are readily available for the chat function, as those would be the same kinds of answers and disclaimers/disclosures you put forth when someone asks the same questions on the phone.

Lastly, if there will be an electronic record of these chats, they should be reviewed regularly by knowledgeable personnel to correct any communications that might be detrimental to the bank.

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Announcements

Pat Braun
On January 15th, Pat Braun announced her retirement after more than 19 years of service to United Bankers' Bank. We will miss Pat and wish her well on her future endeavors.

Pam Austin
With deep sadness, we said goodbye to Pam Austin, who passed away on January 5th. Pam worked in UBB's operations department for over 30 years and will be missed by many.

UBB Independent

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