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OFFICIAL PUBLICATION OF THE SOUTH DAKOTA BANKERS ASSOCIATION | FEBRUARY 2021

Top Bank Risks for 2021
Cannabis/Hemp Banking Basics


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message from the chair.....

BY STEVE BUMANN | CFO | BankWest, Inc., Pierre

Find Compromises Good for the Nation

As I was considering what to write about in this month's column, it could have been about round three of the Paycheck Protection Program and the crucial role that South Dakota's banks will once again play in getting money out to the businesses that need it. It could have been about the mountains of cash that is accumulating on bank balance sheets and the resulting drag on earnings. It could have been about the incredibly mild winter (so far), although I think the lack of moisture is becoming concerning. It could have been about performance reviews, budgets and strategic plans or a myriad of other potential topics.

However, I decided to delve into the topic of government relations. The SDBA represents South Dakota banks of all sizes and serves as the voice for the

industry in the South Dakota Legislature and with the state's congressional delegation in Washington, D.C.

Those of you who know me know that I am a lifelong member of one political party. But the goal of this column is not to extol the virtues of one party over the other. Both parties have good people, and unfortunately, bad people in them. Both parties have good ideas and bad ideas. No party has a lock on good ideas.

For the last decade or two in Washington, if an idea comes from the Democratic Party the Republicans unanimously oppose the idea, and if the Republicans propose something it is unanimously opposed by the Democrats. To an outside observer, it does not appear that there is any willingness to reach across the aisle and work out a compromise for the good of the nation. We should be able to find things that are for the good of the country and work on them together in order to get them done.

I realize that the parties are deeply divided over what is good for the country, but surely there are people in the halls of Congress that can look past the deep chasm that seems to separate the two parties and find some things that can be worked on together. I believe that if we can find some of those things, we will begin to find more.

I hope that an amiable atmosphere can begin to be developed. If not, then I am afraid that the chasm will deepen. The riots that occurred in cities across America this past year and the recent riot at the U.S. Capitol in Washington, D.C., will continue to happen and get worse. I for one abhor the thought of decision making by riot.

My opinion is that both political parties have a lot for which to be ashamed. Instead of pointing a finger at the other side of the aisle, they need to look at the three that are pointing back at them.

I would encourage South Dakota's delegation to lead the way. Work on things that are good for the country, even if they are not necessarily good for the party. ■■■

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from the executive office.....

BY KARLTON ADAM | President | South Dakota Bankers Association

Business at Usual

Like most people, I welcomed 2021 with open arms and remain hopeful that the year ahead brings with it health, happiness and an element of "business as usual." Although business as usual will likely have new meaning, in many respects the new meaning will have a new and improved look. The challenges of the past year have allowed us to develop in ways we didn't think possible or imagine. Better use of technology and greater awareness of the importance of mindset, resolve and perseverance are at the top of my list.

I believe we learned that the attitude we carry forth each and every day determines not only the kind of day that lies ahead, but also how well we will handle the challenges we face. We learned to remain steadfast with optimism and the belief that our world would get back to a more normal routine.

The vaccination process that is underway throughout South Dakota and the country is a great sign that business as usual lies ahead. Please continue to watch for updates on vaccine distribution and remember that the banking industry is in the 1E priority group. Please do your part to encourage your employees to get vaccinated as soon as possible. Vaccination schedules and public education information are regularly updated on the South Dakota Department of Health's website at <https://doh.sd.gov/COVID/Vaccine/Public.aspx>.

Another sign of business as usual was observed by the start of the 2021 South Dakota Legislature on Jan. 12. Gov. Kristi Noem kicked off the legislative process by highlighting several South Dakota success stories during her State of the State Address. Let's work toward creating more positive South Dakota stories and experiences during 2021. While the good and tireless work done by government officials often gets overshadowed, it's good for all of us to reflect that



I believe we learned that the attitude we carry forth each and every day determines not only the kind of day that lies ahead, but also how well we handle the challenges we face.

making the best decisions possible for our state and country is the more common goal.

During the next few months, I will be working with legislators and government leaders on what we anticipate will be positive outcomes for the South Dakota banking industry. I look forward to updating you on our progress each week and hope to be able to see many of our member bankers during the SDBA's virtual State Legislative Day on Wednesday, Feb. 10. If you haven't yet registered, please visit the SDBA's website at www.sdba.com to view the agenda and to register to participate.

As you look forward to opportunities that "business as usual" may hold for you, I hope you find the following quote, author unknown, helpful.

"What kind of attitude are you bringing into home or work today? Every day can be the best day if you wish to make it so. Be careful, either way, it is contagious and spreads to others. You can't fake good attitudes. You have to own it and believe it yourself for it to be true."

Karlton Adam is president of the South Dakota Bankers Association in Pierre. Adam can be reached at 605.224.1653 or kadam@sdba.com.



SOUTH DAKOTA COVID-19 VACCINATION INFORMATION

<https://doh.sd.gov/COVID/Vaccine/Public.aspx>



ATM LOSS ALERT

Don't Get Dragged Down by 'Hook and Chain' Attempts

Because of our current "low-contact" environment, there is more pressure on automation. Your ATM is a prime target because everyone knows they are in a high-usage environment. ATMs are on a high maintenance cycle trying to keep them full of cash and running without issues. Please read this timely article by Craig M. Collins, president of financial services for Intact Insurance (formerly OneBeacon Financial Services).

By Craig M. Collin, President, Financial Services, Intact Insurance



It is well known that ATMs are subject to many different types of attacks, from skimming or tampering to robbery. In the last few months, the U.S. has seen a spike in a new type of assault on ATMs, labeled "hook and chain" attacks. In this style of attack, criminals are attaching

chains or cables to the ATM, hooking those chains to a vehicle and attempting to physically pull off the door of the safe of the ATM.

Drive-up island ATMs have been particularly vulnerable in such incidents, as well as standalone ATMs at remote locations such as a gas station or a business after hours. To mitigate risk, your bank should refer to the following tips to protect ATMs.

Procedural Considerations

- Test/upgrade the ATM alarm. Confirm with both your alarm monitoring company and local law enforcement that an alarm originating from an ATM is not categorized as a burglar alarm but as a robbery, which should initiate a quicker law enforcement response.
- If maintenance on the machine is required, be sure branch employees are made aware of it ahead of time. A branch employee should call a specific individual at the bank or the manufacturer to confirm the legitimacy of any service visit since criminals have been posing as authorized ATM representatives.
- Vary times when ATMs are restocked. ATM thieves often surveil ATM locations in order to conduct their attack when the ATM has been recently stocked. Sporadic and random fulfillment schedules make it more difficult for the burglars to maximize on the amount stolen. Limit the risk by having less cash inside the machine.

Structural/Hardware Considerations

- Consider placing vibration sensors and GPS trackers inside the ATM.
- Safe slot reinforcement kits (door hook kit) removes space surrounding the dispenser/deposit aperture and reinforces the area around them. This makes it more difficult to damage the module transports and subsequently insert a hook through the aperture in the safe door (Source: NCR Corporation).
- Security gate barrier kit: A steel gate that wraps around the ATM and is bolted to the ground.
- Alarmed top hats: Consider installing metal top hats with contact alarms. Alarms should be designed to activate at the earliest possible sign of tampering and should be incorporated into the bank's main alarm system.

Location Considerations:

- Portable ATMs inside the bank lobby should be relocated away from exterior windows and doors to make smash attempts more difficult.
- Clean and inspect cameras. Confirm that external cameras are positioned so that they are in sight of the ATM as well as the area surrounding it.
- Ensure that lights are bright and surrounding area is well lit should an incident occur. This makes it easier for cameras to identify suspects as well as determine license plate numbers.

Performing procedural tune-ups, installing specialized hardware and keeping location in mind are three imperative factors to making sure your employees, customers and equipment remain safe. 📊


Intact Insurance (formerly OneBeacon Financial Services), an SDBA associate member, offers property and casualty as well as collateral lines coverages for commercial banks, savings banks and savings and loan institutions, security broker-dealers, investment advisors, insurance companies and credit unions. Learn more at www.intactspecialty.com/financial-services.

SDBA Seeking Candidates for Vice Chair

Are you interested in becoming an officer of the South Dakota Bankers Association?

SDBA officers include the chair, chair-elect, vice chair and immediate past chair. The SDBA is currently seeking people who are interested in running for the vice chair position, which will be elected at the Quad States Convention on June 15, 2021, in Rapid City.

The current chair-elect, Kristina Schaefer (First Bank & Trust, Sioux Falls), will automatically assume the chair position on June 15. The current vice chair, David Bangasser (Dacotah Bank, Sioux Falls), will be eligible to run for chair-elect. The position of vice chair will be up for election. Current Chair Steve Bumann (BankWest, Pierre) will become the immediate past chair.

If you are an executive officer of any SDBA member bank, you are eligible to run for vice chair. If you are interested in running for the position, contact a member of the nominating committee listed to the right prior to the Quad States Convention and submit a letter of intent to SDBA President Karlton Adam at kadam@sdba.com or by mail to SDBA, PO Box 1081, Pierre, SD 57501. 

Officer Election Nominating Committee

Chair Shawn Rost

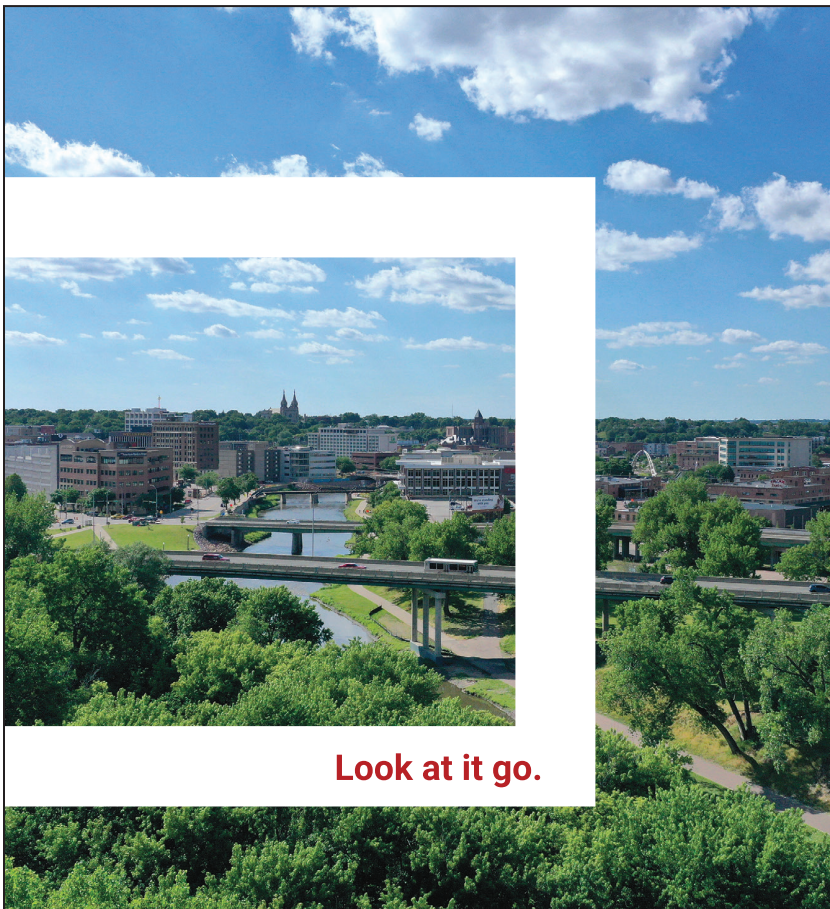
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SDBA to Hold IRA Update Virtually in March

The SDBA will hold the IRA Update Seminar on March 2 virtually via Zoom. This seminar is designed to review two major pieces of legislation—the Secure Act and CARES Act. There have been a number of IRS notices that came out during 2020 further explaining these two pieces of legislation.

Topics that are timely for this time of year will also be discussed. Covered topics include changes in contribution eligibility, making the transition from 70.5 to 72 for required minimum distributions (RMDs) and how to calculate RMDs in 2021, beneficiary options and an update on COVID-19 distributions that were allowed in 2020.

Those who would benefit from the training include:

- IRA administrators, personal bankers or member services personnel who have a working knowledge of basic IRA operations and wish to expand their expertise and provide enhanced customer service.
- Financial professionals who recognize that IRAs play an integral role in retirement planning.
- Compliance specialists with procedural oversight of IRA policies and practices.
- Support personnel responsible for promotional materials that describe the services provided by a financial organization.

Seminar presenter Michael O'Brien has been a key player in the retirement services industry for more than 30 years and has provided consulting and educational services to all facets of the retirement industry. Learn more and register at www.sdba.com.

ABA to Hold 2021 Washington Summit Virtually

The balance of power in Washington has shifted, and with the new administration and Congress comes new opportunities to advance sound public policy on the issues facing banking. All of us are obligated to provide our real world expertise, perspective and assistance where needed. As the nation continues to address the immense economic shock caused by the pandemic and build a recovery plan, the banking industry is more important than ever.

The American Bankers Association (ABA) will hold the 2021 Washington Summit virtually on March 16-17. Be the first to hear what lawmakers, regulators and the administration are planning in the weeks and months ahead. Pandemic response and relief, financial inclusion, cannabis banking, as well as clarity and context on fair lending, AML/BSA reform and non-bank entrants to the financial system will be on the agenda.

Bankers can have a direct impact on public policy discussions that affect the industry, customers and communities. A strong banking industry is central to the nation's economic recovery. Let's deliver a unified and amplified voice when it matters most.

Bankers can participate in the Summit for free. The event will also include the Emerging Leaders Forum, Women's Leadership Forum and Mutual Community Bank Forum. Learn more and register at www.aba.com/training-events/conferences/washington-summit.



Application Available for South Dakota Bankers Foundation's Named Scholarships

The South Dakota Bankers Foundation annually offers five named scholarships awarded directly to college students who are pursuing a career in banking or finance. Applicants must be a junior entering their senior year of college during the 2021-2022 school year.



The scholarships are:

- \$4,000 Alan M. Graff Scholarship
- \$3,000 David S. Birkeland Scholarship
- \$3,000 Herman Lerda Scholarship
- \$3,000 Joyce Hazeltine Scholarship
- \$1,500 Deb Gates Scholarship

The deadline to apply is March 26, 2021. The SDBA also provides a poster if banks would like to help promote the scholarships.

Learn more at www.sdba.com/college-scholarships. Questions, contact Halley Lee at 605.224.1653 or hlee@sdba.com.

Emerging Leader of the Month: **Tim Schut**



As part of the SDBA's mission to grow South Dakota's future bank leaders, we are featuring a monthly emerging leader. This month's feature is on Tim Schut, First PREMIER Bank, Sioux Falls.

First-Ever Job

I grew up on a farm near Chester, so my first paying job was throwing bales and walking beans for neighbors. My first "town job" was selling shoes at Tradehome Shoes.

Emerging Leader Story

I work at First PREMIER Bank in Sioux Falls because of United Way. Dave Rozenboom, president of First PREMIER Bank, was chairing the United Way campaign in Sioux Falls a few years back. I thought so much of Dave that I'd invite him out for coffee a couple of times a year. Then about seven years ago, Dave said there was an opportunity at First PREMIER Bank that I should look into. And as they say, the rest is history. My manager, Tony Nour, is on the SDBA Emerging Leaders Work Group. When he asked me about being part of this program, I jumped at the chance! Prior to coming to First PREMIER Bank, I was a financial advisor and not involved in the SDBA. I really enjoy the SDBA's emerging leader programming, which is fantastic, and have met a lot of great people.

What He Most Likes About His Job

I am vice president of private banking and wealth management at First PREMIER Bank and am also the private banking manager. We help business owners, executives and physicians simplify their financial lives by providing them one point of contact to access all the bank's resources. I love my role because our private banking team works with essentially all the departments in the bank—trust, mortgage, retail, investment service and business/ag banking.

If He Could Have Any Job

For sure a rock star—the front man. I can't sing a lick, but I'd want to be a rock star. Seriously though, for a summer when I was going to college I built houses. I learned some life-long skills that summer, and when the job was completed you could admire your work. When I see the growth going on around the state, I wish I owned a construction company.

What Motivates Him

I have three daughters (Katelyn, Makayla and Alyssa), and I love attending their events and just being with them be it basketball, softball, piano recitals, band concerts, etc. I'm a terrible golfer, but we go golfing as a family and have a blast!

In His Spare Time

My wife, Jen, and I grew up on farms 10 miles apart. We have an acreage in Lake County that we go to nearly every weekend. My daughters find wood projects on Pinterest, and we make them. We also get to see family often. 🌈



Tim and Jen Schut and their three daughters (center L-R) Katelyn, Alyssa and Makayla.



TOP BANK RISKS for 2021

By Julie Knudson, Contributor, ABA Banking Journal

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Uncertainty and unpredictability were the watchwords for 2020. The business environment changed nearly overnight, as did consumer behaviors. Banking, shopping, dining, work, school—the pandemic touched it all.

"The velocity of change continues to increase in speed," says ABA SVP and risk expert Ryan Rasske, CERP, CAFP. "On the community bank side, adoption of technology with their consumer base probably happened at a much faster rate than they ever anticipated due to the pandemic."

But though digital access was a primary focus in 2020, banks were still expected to provide personal



Kristina Schaefer

service in a physically distanced world. "Essential employees are still going to work every day," says Kristina Schaefer, general counsel and chief risk officer at First Bank & Trust in Brookings, S.D. "How are banks meeting customer needs outside of the digital channel? Should hours and services be re-evaluated in this new work environment?"


As we move into 2021, the banking risk picture is poised to be both otherworldly and familiar. We asked industry experts how they saw risks shaping up in the coming year. From the rapid shift toward digital banking to economic burdens to election year turmoil, some common areas of focus will remain while new and expanded risks will be on the radar, too.

Interest Rates and Economic Activity Just the Tip of the Risk Iceberg

Schaefer anticipates continued pressure on interest margins as banks fight for quality loans, and she says managing interest rate risk will be a priority. "As banks look for innovative ways to continue to meet the needs of their customers but also increase their non-interest income, what sort of expertise exists within the bank? Can banks move quickly in this unique rate environment we find ourselves in?" Additional risks on the credit side will evolve as 2021 unfolds. "It's yet to be seen from a credit perspective how things shake out, whether we're able to get another stimulus plan through," Schaefer says. The other question, of course, is what impacts any government programs will have on spending and borrowing for consumers and businesses.

David Kelly, CERP, CRCM, chief risk officer at FirstBank Holding Company in Lakewood, Colo., expects to see potential credit risks and loss from a deteriorating economy, particularly as the deferrals that have been granted expire. "We'll see if economic conditions improve or deteriorate, and this is where uncertainty will play in until the pandemic has a more certain outcome and we know whether we're going to close back down again," he says. Kelly also believes liquidity in the current market is a potential future risk in such an uncertain environment. "Stimulus is sitting in the banks, but what will happen with funds during 2021?"

Balance sheet management will also be critical. "Banks will continue to focus further on that compression of interest margin due to the Federal



Reserve strategy of keeping interest rates low or near zero for the next year plus, given the economy," says Ryan Luttenton, consulting partner at Crowe, which ABA endorses for risk, compliance and governance consulting. Low-cost core deposits will be increasingly valuable to offset some of the compression, and Luttenton believes banks with the data to understand customers' behaviors and drive actionable insights will be better positioned to retain those core deposits in the coming year. "Increasing the precision on data analytics or creating new data analytics to monitor customer behavior is going to be important," he says.

Commercial Real Estate Poised for a Shift

A portion of those businesses forced to close or scale back operations during the shutdown likely won't survive. "Vacancies, particularly in the retail sector, could be tough for non-owner-occupied commercial real estate—shopping centers, strip centers and the like," says Clayton Legear, president/CEO of Merchants and Marine Bank in Pascagoula, Miss. Banks active in the commercial real estate sector may see increased risk as tenants and landlords consider their options if businesses can't restart or sustain operations.

Meanwhile, other industries are rethinking their operating models. Tech-heavy companies were quick to announce long-term work-from-home arrangements for employees, and other verticals are following suit. "For many companies that truly don't have to have employees working from office space that they pay for, I think you'll see many of them come back and say they'd be fine giving employees the option to work remotely," Legear says. Class A office space may no longer be a necessity for firms with work-from-home flexibility. "There may potentially be volatility even in that traditionally safer realm of owner-occupied commercial real estate," Legear says.

Security Cyber and the Expanding Realm of Third-Party Risk

The operational shift to online created new workflows for employees and it also added another risk component into the cybersecurity landscape—customers. "We're serving customers in the digital environment now that may not be digitally native," says Atul Malhotra, managing director of enterprise risk management at Fulton Financial in Lancaster, Pa. Large commercial customers may be more familiar with cyber best practices, but consumers generally aren't. "That naturally introduces a host of other considerations and risks," Malhotra says. He anticipates a heightened focus on mitigating those risks in the months ahead, but the usual tendency to increase control by adding friction to the process may need to be tempered with a scaled approach that better aligns with users' needs and expectations. "Making it easier for customers to understand what they need to do and how they need to go about doing their banking in a safe and secure manner online or through mobile is going to be equally

important as adding the control layer," Malhotra says.

Customers aren't the only ones who've embraced digital since the pandemic. Threat actors have also been busy. Paul Benda, SVP for risk and cybersecurity policy at ABA, says phishing has increased more than 400% since COVID-19 hit. "The odds of someone losing credentials and criminals potentially gaining access to accounts are high," he says.

Instances of ransomware have also grown, prompting the need for banks to maintain greater awareness around patching and following good cyber hygiene, particularly since their remediation options may be shrinking. "The Treasury Office of Foreign Assets Control recently put out a statement reiterating that anyone that pays a ransom to an entity that is sanctioned or in a sanctioned country is exposing themselves to enforcement action, which could include criminal penalties," Benda says. With this updated guidance, banks must be mindful to have strong business continuity and data restoration plans in place to prevent them from feeling forced into less savory responses.

Managing third-party risks has also expanded in scope, due to the growth of digital banking and remote work arrangements. "If you're totally reliant on a single cloud service provider, have you created too much risk in a single place and a single point of failure?" Benda asks. He says most cloud and other providers have their own cascade of technology partners working behind the scenes. "Does that third party have a fourth-party vendor that exposes banks in ways they haven't expected before?" Institutions should increasingly assess where data is going, who's managing it along the way and how downstream risks may now exist with providers the bank didn't even know they were using.

Because vendors and their partners are continuously enhancing the technology infrastructure, a change in cadence may be necessary to keep pace with downstream vendor risk. Rasske suggests the traditional due diligence processes that touched bases with vendors periodically may no longer be adequate given how quickly things are changing. "Does this need to be touched more frequently than it's ever been in the past?" he asks. Changes in the governance process could help ensure that risk management efforts remain effective as the chain of providers and its overall attack surface become more complex.

Compliance Takes on New Focus

Regulatory issues could also grow in 2021. Kelly points to allowances made around working with borrowers during the height of the pandemic and the supportive stance taken by regulatory agencies at the time. It's yet to be seen if those we're-all-in-this-together feelings carry forward into the new year. "If we start seeing deterioration, will there be second guessing of the actions the industry took during 2020 and scrutiny over that?" Kelly asks. Concerns about

Continued on page 21

Bankers Learn Cannabis, Hemp Banking Basics

By Alisa Bousa, Editor

South Dakota bankers joined Montana bankers for the Cannabis/Hemp Banking 101 Webinar held virtually on Jan. 20-21. The webinar was hosted by the SDBA and Montana Bankers Association, with assistance from the Colorado Bankers Association.

With the passage of Amendment A and Initiated Measure 26 legalizing medical and recreational use of marijuana in South Dakota, the SDBA provided the webinar to give bankers an opportunity to learn the basics about banking cannabis and hemp and ask questions of industry experts.

"This is an issue that is continuing to spread and if anything is just picking up steam," said Sabrina Bergen, SVP, Office of Strategic Engagement, American Bankers Association (ABA). "We are now at 35



Sabrina Bergen, ABA

states that have approved medical cannabis programs and 15 that have approved recreational programs."

"It has become a big priority for the ABA legislatively, not because we have a position on whether or not cannabis should be legal," she said. "We don't have a position on that. That is an issue being decided by voters state by state on the ballot. But because of the practical problems that are created by the failure to address this divide between state law and federal law and what that means for banks specifically from an operational and compliance perspective."

Bergen spoke about the status of two federal pieces of legislation now being considered in Congress—the SAFE Banking Act and STATES Act. The ABA supports both pieces of legislation, which Bergen said address banking challenges but from different approaches.

The SAFE Banking Act is a narrowly-tailored, banking-specific bill that creates protections for depository institutions and insurers that provide financial services to cannabis-related businesses that are operating in compliance with state law. It does not change the status of cannabis as a schedule one drug.

The STATES Act eliminates regulatory controls and administrative, civil and criminal penalties under

the Controlled Substances Act for certain marijuana-related activities that comply with state or tribal law. Bergen said the bill, which is not banking specific, would recognize state and legal cannabis marketplaces and protect both the businesses and by extension the banks that are doing business with them.

"It is not just banks that are struggling with this. It is communities generally from a public safety perspective and challenges with collecting taxes for cannabis businesses, from effective regulation and oversight of those companies that are all operating on a cash basis," Bergen explained. "Those are all challenges and we know that addressing those elements as the focus of ABA advocacy for the past year really resonates with lawmakers as a reason to address this. It is not just about the dispensaries and cannabis companies themselves.

"We saw really amazing progress on this issue last year. It went pretty quickly from going in to talk to legislators about cannabis banking and getting a 'Is this a serious issue?' to 'Why are we talking about this?' kind of response, to the SAFE Banking Act passing the House on a broad bipartisan vote and even the Senate picking up the issue."

Champion Bank in Parker, Colo., made the decision to bank cannabis-related businesses in 2014. The bank's executive vice president, Valerie Holden, said an FDIC regulator during an exit interview meeting made it strong and clear that she needed to hire qualified people for her bank's cannabis banking program and to pay them what they are worth. Cannabis is difficult to bank and should not be treated as regular customers. Holden warned against banks assigning their programs to non-experienced bankers.

"The one thing that I can say to any bank that is even thinking about it is you need to go back and you need to look at either your BSA/AML policy or program. They both need to be strong," Holden suggested. "And you need a BSA/AML officer that has the ability to implement the uniqueness of banking something that is federally illegal."

Richie Thorne, adviser of regulatory programs at Dama Financial who worked for the Federal Reserve for 18 years, said it is extremely important that banks involved in cannabis banking know who they are banking and also their customers' customers.

Shawn Martini, VP of advocacy with Farm Bureau

Colorado, spoke about hemp production. He called hemp a unique product which requires a good farm manager as it is difficult to grow and has a narrow window of harvest. Martini said it is important that producers know the cost of inputs before going into the hemp business and have a strong plan in place to market the crop prior to seed going into the ground.

"From a banking perspective as you are looking at this and you have clients who are interested in potentially getting in and asking you to partner with them in banking this crop and product, I would encourage you to focus very closely on proven clients—folks who have been operators and who are really going to do this with strong farm management and a strong focus on agronomics of the crop and managing it on a day-to-day basis."

Banking regulators who took part in federal and state regulator panels during the webinar spoke about regulatory guidance available on cannabis banking, knowing what to expect from exams and the importance of having robust BSA/risk management systems in place. They encouraged banks considering cannabis banking to reach out to their respective regulators, who can serve as regulatory partners.

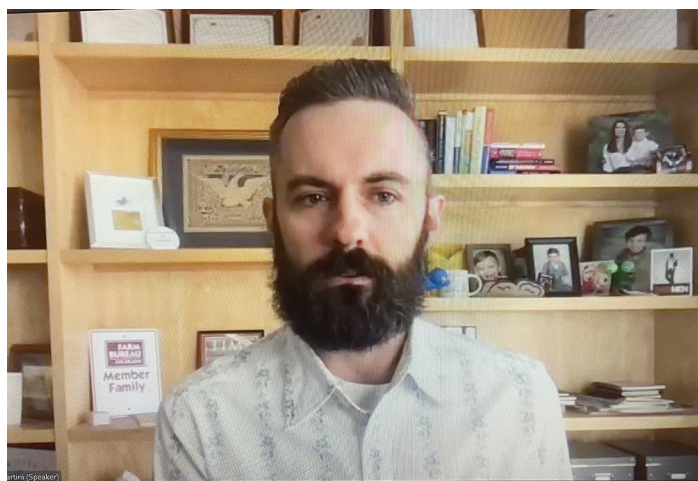
"We are going to issue some guidance, and we are going to take a commonsense approach to this," said Bret Afdahl, director of the South Dakota Division of Banking. "We are not going to reinvent the wheel because there is a lot of guidance out there."

"We want to work together with our institutions to do this right, because I think it can be done right. It is just going to take some time to get there from where we are right now."

The SDBA has created a cannabis and hemp banking resource page at www.sdba.com/cannabis-hemp-banking where we will post information as it becomes available. 📊



SDBA President Karl Adam opened the Cannabis/Hemp Banking 101 Webinar on Jan. 20.



Shawn Martini, VP of advocacy with Farm Bureau Colorado, spoke about hemp production and banking.

Cannabis, Marijuana, CBD, Hemp & You

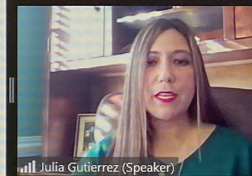
- **Cannabis (aka Marijuana)**—psychoactive drug from the Cannabis plant used for medical or recreational purposes
 - Dried leaves, flowers, stems and seeds
 - Contains THC
 - Marijuana extracts
- **CBD (Cannabidiol)**—non-psychoactive chemical compound from marijuana (cousin to THC)
- **Hemp**—strain of Cannabis sativa plant with industrial uses (fibers, fabrics, paper, etc.)

Montana: Constitutional Initiative 118 (CI-118) and Initiative 190 (I-190)

- January 1, 2021 begins legalization of marijuana for recreational use
- Recreational sales do not take effect until October 2021
- Current dispensaries are limited to registered patients

South Dakota: Measure 26 and Amendment A

- First state in country to simultaneously legalize medical and adult-use marijuana
- Legal challenges may delay recreational marijuana program's implementation



AML/BSA Reform Is on the Horizon

By Steve Manderscheid, Compliance Officer, Compliance Alliance

When Congress pushed through the National Defense Authorization Act for fiscal year 2021, the banking industry breathed a sigh of relief with the glimmer of hope for the potential elimination of excessive regulatory burdens under the Bank Secrecy Act (BSA).

The reason for hope is the section within the legislation dedicated solely to improvements to anti-money laundering (AML) rules, including to:

- Improve coordination and information sharing among the agencies tasked with administering anti-money laundering and countering the financing of terrorism requirements, the agencies that examine financial institutions for compliance with those requirements, federal law enforcement agencies, national security agencies, the intelligence community and financial institutions.
- Modernize anti-money laundering and countering the financing of terrorism laws to adapt the government and private sector response to new and emerging threats.
- Encourage technological innovation and the adoption of new technology by financial institutions to more effectively counter money laundering and the financing of terrorism.
- Reinforce that the anti-money laundering and countering the financing of terrorism policies, procedures and controls of financial institutions shall be risk-based.
- Establish uniform beneficial ownership information reporting requirements to: improve transparency for national security, intelligence and law enforcement agencies and financial institutions concerning corporate structures and insight into the flow of illicit funds through those structures; discourage the use of shell corporations as a tool to disguise and move illicit funds; assist national security, intelligence and law enforcement agencies with the pursuit of



crimes; and protect the national security of the United States.

- Establish a secure, nonpublic database at FinCEN for beneficial ownership information.

The main purpose of this immense undertaking will continue to focus on safeguarding the United States financial system and those financial institutions that make up that system from the abuse of money laundering, terrorist financing and other illicit financial crimes.

Today, banks must develop and implement an effective risk-based AML program consistent with rules that transcend roughly 50 years of banking. Over that period of time many things have changed, especially the recent digital innovations relating to how consumers interact and conduct their banking and transactions. Unfortunately, the same cannot be said for the regulatory burden to file reports under archaic and arbitrary thresholds.

Under the current BSA currency transaction reports (CTRs) requirements (not considering exemptions as they are a burden unto themselves), financial institutions must report currency transactions over \$10,000 conducted by, or on behalf of, one person, as well as multiple currency transactions that aggregate to be more than \$10,000 in a single day.

In addition to filing CTRs, the industry must report suspicious activity under the following thresholds:

- Criminal violations involving insider abuse in any amount.
- Criminal violations aggregating \$5,000 or more when a suspect can be identified.
- Criminal violations aggregating \$25,000 or more regardless of a potential suspect.
- Transactions conducted or attempted by, at, or through the bank (or an affiliate) and aggregating \$5,000 or more, if the bank or affiliate knows, suspects or has reason to suspect that the transaction involves money laundering or other illegal activity, evades the BSA or has no business or apparent lawful purpose.

Under the current legislation, the Treasury Department is to undergo a formal review of these current arbitrary thresholds established for filing CTRs and suspicious activity reports (SARs).

Review of Thresholds for Certain Currency Transaction Reports and SARs

The secretary, in consultation with the attorney general, the director of national intelligence, the secretary of homeland security, the federal functional regulators, state bank supervisors, state credit union supervisors and other relevant stakeholders, shall review and determine whether the dollar thresholds, including aggregate thresholds, under sections 5313, 5318(g), and 5331 of title 31, United States Code, including regulations issued under those sections, should be adjusted.

Considerations

In making the determinations required under subsection (a), the secretary, in consultation with the attorney general, the director of national intelligence, the secretary of homeland security, the federal functional regulators, state bank supervisors, state credit union supervisors and other relevant stakeholders, shall: rely substantially on information obtained through the BSA Data Value Analysis Project conducted by FinCEN and on information obtained through the currency transaction report analyses conducted by the comptroller general of the United States and consider:

- The effects that adjusting the thresholds would have on law enforcement, intelligence, national security and homeland security agencies.
- The costs likely to be incurred or saved by financial institutions from any adjustment to the thresholds.
- Whether adjusting the thresholds would better conform the United States with international norms and standards to counter money laundering and the financing of terrorism.

- Whether currency transaction report thresholds should be tied to inflation or otherwise, be adjusted based on other factors consistent with the purposes of the Bank Secrecy Act.
- Any other matter that the secretary determines is appropriate.

Report and Rulemakings

Not later than one year after the date of enactment of this Act, the secretary, in consultation with the attorney general, the director of national intelligence, the secretary of homeland security, the federal functional regulators, state bank supervisors, state credit union supervisors and other relevant stakeholders, shall:

- Publish a report of the findings from the review required under subsection (a).
- Propose rulemakings, as appropriate, to implement the findings and determinations described in paragraph (1).

Updates

Not less frequently than once every five years during the 10-year period beginning on the date of enactment of this Act, the secretary shall:

- Evaluate findings and rulemakings described in subsection (c).
- Transmit a written summary of the evaluation to the Committee on Financial Services of the House and the Committee on Banking, Housing and Urban Affairs of the Senate.
- Propose rulemakings, as appropriate, in response to the evaluation required under paragraph (1).

How will all this play out? Well, we'll have to wait and see. Hopefully, an increase in the reporting thresholds will bring some semblance of actual tangible benefits to financial institutions being burdened under the current BSA regulatory reporting structure. 📊



Steve Manderscheid brings more than 25 years of financial industry experience to Compliance Alliance, an SDBA endorsed vendor and associate member. Previously, he focused on all aspects of regulatory compliance risk management while also serving in a BSA officer capacity. In recent years, he has ventured into leadership roles in enterprise-wide risk management, complaint management, and vendor and third-party relationships. As compliance officer, Manderscheid brings all of his experience to completing reviews and working on developing tools, training materials and training events for C/A members. Learn more at www.compliancealliance.com.



washington update.....

BY ROB NICHOLS | President and CEO | American Bankers Association

COVID-19 Turns One

Lessons Learned from a Global Health Crisis

As impossible as it is to believe, we have been living in a global pandemic for an entire year. What began as a headline from a distant corner of the world quickly became a worldwide health crisis that continues to wreak havoc on our way of life and has, unfortunately, claimed the lives of too many of our citizens.

As I reflect on the last 12 months and the incredible changes that occurred virtually overnight to keep our society moving in the face of perilous uncertainty, I am filled with a deep sense of pride in how the banking industry stepped up to help make that happen. It speaks to the “can-do” spirit of America’s 2 million bank employees that as the world was shutting down, as daily routines were being upended, bankers embraced their role as economic first responders and got to work extending aid that helped keep individuals and businesses afloat.

With vaccines now being rolled out to certain groups, we are anxiously awaiting the day when we can finally return to some semblance of a normal life. But achieving herd immunity from the virus will take time, and as we prepare to mark one full year of quarantines, social distancing and face coverings, I’d like to offer a few observations.

Our financial system is resilient. After the last financial crisis, banks worked diligently to increase safety and soundness and manage risk more effectively. The post-2008 reforms were intended to help banks better absorb financial shocks—and the success of those reforms was borne out in the crisis response. It was widely acknowledged, by everyone from Financial Services Committee Chair Maxine Waters (D-Calif.) to Federal Reserve Chair Jerome Powell, that banks performed well and were part of the solution to the coronavirus crisis.

Thanks to the strength of our financial system, there is reason to be hopeful for the economic recovery. In fact, the top economists at some of the nation’s largest banks who serve on ABA’s Economic Advisory Committee agree that we could see growth topping 4% in 2021. We must, of course, temper that expectation with the knowledge that the recovery will likely be uneven, and that labor markets could lag behind overall growth, given the massive job losses that occurred. That’s why, going forward, our advocacy

for pro-growth policies will be more important than ever.

The digital revolution has been rapidly accelerated.

Banks were already well on their way toward digital transformation before COVID-19. But the pandemic provided a push to bank customers who may not have fully embraced digital banking to do so in earnest. That will accelerate the digital transition even further and will surely lead to efficiencies for banks down the road. The robust digital banking landscape also bodes well for financial inclusion—the ability to remotely access banking services will enable a broader set of customers to take advantage of the full panoply of financial tools and resources at their fingertips.

The relationships with our state associations are critical. From the earliest days of the pandemic, state associations played an instrumental role in analyzing and disseminating information that bankers needed to make PPP loans, facilitate economic impact payments and continue operating amid constantly changing health and safety guidelines.

With the help of our State Association Alliance partners, we delivered free resources to ABA members and nonmembers alike—including 33 free webinars, operational aids, crisis communications toolkits, scientific analyses and more—recognizing the importance of helping all banks weather the crisis.

Through weekly calls—and sometimes daily calls—there was a continuous flow of information and feedback between ABA in Washington and all 50 states. This collaboration was vital as policymakers worked to calibrate and re-calibrate rules and regulations implementing the first CARES Act. I have no doubt that this engagement will continue now that a second stimulus has been passed and a third package could soon follow.

These are just a few takeaways from this historic period. In the years ahead, I’m sure there will be even more robust look backs and more lessons that can be extrapolated from the coronavirus crisis. And the result of all of that learning, I hope, will only serve to make us stronger, safer and more prepared for the future. 📊

Rob Nichols is president/CEO of the American Bankers Association. You can reach Nichols at nichols@aba.com.

Harden Your Cyber Defense by Reducing Your Attack Surface

By Robert Mendez, Vice Chairman, BankOnIT

Defense strategists for millennia have relied on a straightforward tactic to create advantage against invaders: reduce the attack surface. That is, limit the number of different points where an enemy can potentially gain entry to attack.

Those same principles hold today when it comes to protecting your bank's technology and data from the escalating barrage of cyberattacks.

Reducing your technology attack surface (TAS) leaves potential adversaries with a smaller number of targets—which can be more effectively monitored and defended.

The TAS is the total of all the different points where an unauthorized user can try to enter to cause mayhem. The effect of a successful attack can run the gamut from compromising systems operability to stealing, destroying or preventing data from being used.

A useful way to visualize about your financial institution's TAS is to relate it to the windows and doors on your house. The more entry and exit points you have in your house, the greater the security challenge. Large TASs are difficult to defend because of the amount of ongoing effort needed to monitor, analyze and respond to anomalies. Unfortunately, many banks are creating more risk for themselves with large TASs because they continue to layer in legacy technology components and multiple outside vendors.

The good news is that you can take steps to reduce your TAS. A bonus is that you may be able to lower your ongoing operating costs at the same time, since complexity is a big driver of security vulnerabilities and costs.

You can think about TAS in these categories.

Hardware

Ports, connections, devices, interfaces, cloud servers and even data, systems and processes for network operation.

Mitigate: Reduce the number of connections and vendors. Pro tip—make sure you understand the sub-vendors your vendors may use and their TAS profile. Eliminate vendors that are simply re-sellers or amalgamations of other vendors you don't have visibility into.

Software

Applications, email services, operating systems, compliance policies, patch maintenance and perhaps "invisible software" that is a sub-component of a tech vendor's offering.

Mitigate: Reducing the number of applications and providers is a good starting place. Pro tip for financial institutions—look for security applications that are specialized for your sector. Russians hackers are thought to have infiltrated a wide array of businesses and government entities via ubiquitous software provided by a single, not-so-secure entity.

People

Granted, any individual employee creates a small vulnerability in your "house." But consider that while a keyhole is one of the smallest openings in your house, it opens the door. Collectively, individual employees constitute a lot of small openings—and opportunity for cyber criminals (in-house or external) to gain access through human engineering to your network and information. Cons and scams in the form of phishing emails that can "trick to get a click" are potential entry points into your house.

Mitigate: Defenses include spam filters, continuing employee education on cybersecurity, effective processes and "least" privileges—limiting individuals' data access to the least amount needed to perform their job function.

In this era of complex bank infrastructures and sophisticated malware, it's important to stay vigilant to reduce your TAS and limit the opportunities available to cyber criminals. ■■■



Robert Mendez is vice chairman of BankOnIT, an SDBA associate member. Created by bankers, for bankers, BankOnIT provides a solid technology foundation for creating unlimited opportunity and growing shareholder value. BankOnIT's services meet the information technology security, efficiency, reliability and regulatory requirements bankers have while providing more capabilities and greater efficiency. For more information, visit www.bankonitusa.com.

Will Haugen Named President of First Dakota Chamberlain Branch



Will Haugen of First Dakota National Bank has been appointed to lead the Chamberlain branch as the president. He moves from his role as VP/branch manager of the bank in Chamberlain, taking the reins from Gailen Meyerink who retired at the end of 2020.

Haugen joined First Dakota National Bank in 2002 as an ag loan officer in Mitchell. In May of 2014, he was promoted to VP/branch manager in Chamberlain.

Haugen graduated from the University of Wyoming with a bachelor's degree in agriculture business in 2001. He also graduated from the Graduate School of Banking (GSB) at the University of Wisconsin-Madison in 2010 and currently serves on GSB's Banker Advisory Board. He was part of the South Dakota Ag & Rural Leadership Class VIII.

Haugen is an active member of the Chamberlain community serving as the treasurer for Trinity Lutheran Church, volunteering for the sponsorship committee for South Dakota 4-H Rodeo Finals and South Dakota Junior Achievement, and recently joining the board of the Barger Foundation in Chamberlain. 🌈

Dave Kroll Appointed First Dakota's Chief Lending Officer



Dave Kroll of First Dakota National Bank has been appointed chief lending officer and joins the bank's executive management succeeding Gailen Meyerink who retired at the end of 2020.

Kroll joined the First Dakota National Bank team in 2007 as a commercial lending officer and has been a part of the senior management team for several years. During his time at First Dakota, Kroll has served as vice chair of the Business Banking Loan Committee and has been a member of the Senior Credit Committee.

Kroll started his career in banking in 2003 after graduating from Augustana University with a bachelor's degree in business administration. He spent his first few years with another community bank in all facets of frontline work including teller, personal banker and branch manager roles before settling into commercial lending. Kroll graduated from the Graduate School of Banking at Colorado in 2011 and was part of the inaugural Leadership South Dakota class of 2014-2015.

First Dakota was founded in 1872 and has 18 full-service banking locations in 13 South Dakota cities. 🌈

\$50 Million Gift Kickstarts First Need-Based Scholarship in SD

First PREMIER Bank, PREMIER Bankcard and T. Denny Sanford on Jan. 6 announced a gift of \$50 million to establish a need-based scholarship in South Dakota. The \$50 million gift is just the start of what will be a \$200 million endowment to fund future need-based scholarships in perpetuity.

"Today's announcement is historic for South Dakota and will help us retain talented young people in our state for generations," said Gov. Kristi Noem. "We've identified the need for this type of scholarship for years, and I'm asking the Legislature to match this incredibly generous gift so that we can continue to make South Dakota stronger for our kids and grandkids."

South Dakota is the only state in the country that does not offer need-based scholarships to public or private universities. Initially, the PREMIER Scholarship will be awarded to eligible students at each of the six public universities—South Dakota State University, University of South Dakota, Dakota State University, Black Hills State University, Northern State University and the South Dakota School of Mines and Technology—along with Augustana University and the University of Sioux Falls. The amount of money available to each university will be pro-rated based upon each school's enrollment, with allocations ranging between \$200,000 to \$1.25 million per school.

In exchange for their PREMIER Scholarship, recipients will be required to work in South Dakota for three years following graduation. Students qualify for the scholarship based on a formula that takes the cost of attendance (tuition, fees, room/board, books, etc.) less the family income and expected contribution to determine financial need. 🌈



L-R: South Dakota State University President Dr. Barry Dunn, PREMIER Bankcard CEO Miles Beacom, Gov. Kristi Noem and First PREMIER Bank CEO Dana Dykhouse.

Bankers Taking on New Roles at SNB of South Dakota

Security National Bank (SNB) of South Dakota announced the following promotions.



Amy Frankman has been named retail banking manager in Sioux Falls and will be responsible for the development and coordination of all retail banking activities in the region. A Sioux Falls native, Frankman graduated from the University of Sioux Falls with a degree in project management and served in the U.S. Air Force for four years.

Frankman began her career as a personal banker at SNB before being promoted to assistant branch manager and then branch manager at the Security National Bank located on West 26th Street. In the community, Frankman is actively involved in the Big Brothers Big Sisters of America and LSS mentoring programs.



Joel Christophersen has been named vice president of business banking and will focus on the development and coordination of the bank's business banking services in Sioux Falls. Previously, Christophersen had served as vice president of retail banking since joining SNB in 2006.

During his tenure, Christophersen has also served as the Bank Secrecy Act and information security officer and has been responsible for coordinating the bank's maintenance, consumer compliance, strategic planning, disaster recovery and employee management. He is a graduate of South Dakota State University, where he earned a degree in commercial economics.

Security National Bank of South Dakota is a full-service financial institution with branch offices serving customers in Sioux Falls and Dakota Dunes. 📊

SBS CyberSecurity Chairman/CEO Aaron Gamewell Passes Away



Aaron Gamewell, chairman and CEO of SBS CyberSecurity, passed away Jan. 13, 2021, in his hometown of Little Rock, Ark., after a courageous battle with cancer.

Gamewell joined SBS in December 2015 as president and COO and quickly proved to be a successful and well-respected business leader for the organization. In 2018, he was promoted to chairman and CEO.

During his time at SBS CyberSecurity, the company doubled its revenue and expanded its reach nationally, while consistently leading new innovations in products and services. Not only did he guide the business to

new heights, he also helped build SBS' reputation as a well-known cybersecurity employer and excellent place to work, serving as a mentor to countless employees himself.

Before joining SBS, Gamewell had 21 years of experience in banking and business operations. He worked in Arkansas for multiple banks until 2008, when he began a consulting practice for start-ups and venture capital groups. He led several businesses in Arkansas to maximize the efficiency of their operations to become high-functioning, successful ventures. In 2012, he accepted a position as EVP and COO of the Arkansas Bankers Association, a position he held until joining SBS in 2015.

Honey Shelton, who has been involved with the SBS team since 2015, was named CEO in the fall of 2020. 📊

First International Bank & Trust to Acquire Sodak Home Loans

First International Bank & Trust (FIBT) plans to acquire the assets of Sodak Home Loans, a Sioux Falls-based full-service mortgage brokerage company. The transition is expected to take place in the first quarter of 2021.

"We are thrilled to welcome the team at Sodak Home Loans to FIBT. As a full-service community bank, our culture and values align nicely, and we share the same level of commitment to our customers," said Justin Walseth, chief growth officer, FIBT. "I'm excited about the growth opportunities it brings for all of us."

Brent VanderGriend, broker and owner at Sodak said, "We are excited about becoming a part of First International Bank & Trust. This transition will expand the mortgage services we can offer to our customers and Realtor partners while continuing to elevate our position in the marketplace."

The acquisition of Sodak Home Loans' assets would mark the North Dakota-based bank's first office in South Dakota. "Our existing mortgage team has provided families across our footprint with reliable and responsible home loan solutions for decades. By joining with the lenders and support team at Sodak, we look forward to providing quality lending products and services to the Sioux Falls region," said Mike Mulwani, FIBT's director of mortgage.

FIBT has purchased land at the northwest corner of 69th Street and Minnesota Avenue in Sioux Falls. Plans for further development at the site and continued growth of FIBT's presence in Sioux Falls are currently taking shape. 📊

SDBA MEMBERS

Have information from your bank or business about promotions, accomplishments or branch news? Submit your Bank Notes stories and photos to Alisa Bousa at abousa@sdba.com.

Associate Director of Compliance Services, Upper Midwest Automated Clearing House (UMACHA), South Dakota/North Dakota/Minnesota/Wisconsin

Upper Midwest Automated Clearing House (UMACHA) is a regional payments association which has been serving financial institutions (banks and credit unions) members for more than 46 years on a variety of electronic payments, specifically ACH. We are adding to our compliance team and looking for someone who has a passion for serving members and transferring knowledge. If you like working with electronic payment networks and want to help educate and verify financial institutions are complying with all the rules and regulations, UMACHA is the place for you! Qualifications - Experience & Education: Three or more years of banking operations or compliance/audit experience; check/image, remote deposit capture and wire transfer knowledge preferred; Accredited ACH Professional (AAP) accreditation and expertise required. Responsibilities: Conduct and assist with the development of compliance education; customer service both in-person and via the telephone or video calls; perform ACH & third-party sender audits and risk assessments, remote deposit capture risk assessments and wire transfer audits. Benefits: Medical, dental, vision, life insurance, STD, LTD; generous paid time off; annual bonus; supportive and hardworking executive team. Please send your resume and salary requirements to Angi Farren at angif@umacha.org. ■

Branch President, First National Bank, Newell, S.D.

First National Bank is seeking to hire a branch president responsible for continuing to grow the current portfolio in our Newell branch, in addition to handling the day-to-day management of our bank operations while acting as a leader to bank staff. This role will ensure we provide quality customer care, improve efficiencies within the branch and will promote business in the local community. The ideal individual in this role should possess agricultural lending experience. This role is best filled by an experienced lender who fosters a culture of growth and profitability in their business and wishes to lead an effective team. If you are an autonomous, achieving lender with a background in agricultural or commercial lending looking to join a rapidly growing organization, this role may be suited for you. Send your resume and why you're interested to John. Parsons@PerformanceBankers.com. First National Bank is a privately-owned entity with strong family roots, with a strong commitment to serving the communities in which we reside. For more information visit our website at www.firstnationalbanks.bank/co-sd. Equal Opportunity Employer ■

SBA Loan Officer, 1st Financial Bank USA, Sioux Falls/Dakota Dunes, S.D.

1st Financial Bank USA (1FBUSA) and its wholly-owned subsidiary, Builder Finance Inc. (BFI), are looking to hire a motivated commercial lender to help build and expand the bank's existing credit offerings through his or her knowledge of the U.S. Small Business Administration (SBA) loan guaranty programs. The ideal candidate will have knowledge in all facets of the SBA loan guaranty programs, including, originating, underwriting, packaging, closing and servicing of the loans. The SBA loan officer will work with management to expand its portfolio of quality loans to existing and new customers through the utilization of SBA's 7(a) loan programs. Through collaboration with the other lending teams at the bank, this role will be integral in the creation and implementation of policies and processes surrounding the delivery of government guaranty lending program offerings to the bank's customers. Qualifications: Applicants must have experience with SBA lending and a thorough understanding of the SBA's standard operating procedures. The ideal candidate will demonstrate the ability to work well within a small, collegial team. Preferred additional qualities include entrepreneurial ambition, self-reliant work ethic, adaptable and great attention to detail. Experience: At least three years doing SBA lending. Education: Bachelor's degree with a preferred 3.5 GPA or better. Compensation is generous and commensurate with experience. Visit www.1fbusa.com/careers to apply. ■

CLASSIFIED LISTINGS

If you have a job opening at your bank, send your classified listing to Alisa Bousa at abousa@sdba.com or www.sdba.com, and we will post it on the SDBA website and print it in SDBANKER Magazine. The fee is \$50 per ad (200 word limit) for SDBA members or \$100 per ad (200 word limit) for non-members.

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Top Bank Risks for 2021...*continued from page 11*

a potential shift in sentiment are compounded by election year uncertainties, with banks unsure how vigorously any earlier actions may be defended or denounced.

Linda Gallagher, executive managing director for the United States at Promontory Financial Group, an IBM company, sees fairness in servicing emerging as a greater risk for banks in the coming months. "Think about all these mortgage loans in forbearance that are tied to government programs which will eventually go away," she says. If affected consumers seek mortgage modifications from their servicers, the level of discretion within that process could bring additional attention. "Any time you have judgment in lending or servicing, it can easily give rise to disparate treatment," Gallagher says. "If that disparate treatment falls disproportionately on any member of a protected class, then on the face it could be considered discriminatory." These modification requests will likely occur during a time of greater focus on equal treatment. "It's the perfect storm when you think about fair servicing," Gallagher says. She expects it will be an issue regardless of the election year climate. "We expect fair servicing to be a significant risk and likely to be enforced with vigor for the first time."

It isn't just regulators that could draw focus toward fair lending issues. Data is abundant and available in today's digital environment, and Clayton Mitchell, principal at Crowe, points to past data disclosure acts that have expanded access. He believes it would be short-sighted to think that non-bank groups—such as community organizations, activists and others—aren't analyzing the same data, and he says past underutilization of the power to refer risk issues related to fair lending to the Justice Department is likely to change. "If we as an industry don't get out in front of it, then it's not going to be good." Mitchell says it's a compliance matter but adds that "the bigger issue is really around reputational risk and the challenge with your customers [if] you're seen as being discriminatory." Banks that lead the way will focus on risk mitigation, using data to manage and monitor and, if issues are identified, proactively implement fixes.

The relationship between regulatory issues and cyber threats is also becoming more complex. "Regulators have encouraged banks to be innovative and to embrace new technology, which includes artificial intelligence, machine learning and other things, but those are subject to threats and attacks as well," Rasske says. "If a bank deploys machine learning, which is driven by algorithms, and somebody infiltrates that and causes the machine learning to get off base by inserting bad data, by changing the data or changing the code, which causes the machine learning to behave differently than it was originally intended to, it could give the bank an output that is not good." Data or coding changes could introduce bias or other unwanted

influences, and the resulting subtle variances in the output could remain undetectable for an extended period of time. If those manipulated algorithms affect lending or credit decisions, it could create significant and unexpected risk for a bank.

Operational Risks Looming

Digital transformation was a primary theme during 2020, but Malhotra says one of the biggest operational risks going into 2021 will be the rest of that transformation journey. "All of us need to be mindful that digital transformation is not just standing up digital banking or mobile banking for our customers," he warns. "It is in fact also digitizing the back office and the middle office to make sure our processes can support that type of digital work environment." A digital front end may not perform as well as intended, or follow-on problems may crop up later, if the back office continues to be populated with manual or paper-based processes.

By evaluating the processes and procedures underpinning how banks engage customers and how employees conduct day-to-day activities, some deeply held beliefs in banking could be challenged. "Most commercial banks put their primary emphasis—and rightly so—on lending, credit underwriting, credit administration and deposit gathering," Legear says. However, as we learned in 2020, banks aren't simply makers of loans and gatherers of deposits. "They're highly-complex businesses that, despite their size, are very complex by many other standards," Legear says. Institutions are already adapting to the new paradigm, but the risk is that the experience and skills necessary to evolve outside those traditional functions may not be in place. "Let's take people with strong technology or operational backgrounds and put them in roles where they can help us grow the business going forward," Legear says.

In areas where in-person operations continue to be restricted, Schaefer says new risks may arise. "Should the fraud team be doing enhanced monitoring? Should we be increasing certain audits or reviewing digital banking transfers more carefully? Should we be increasing the frequency of checking in with our commercial customers?" she asks. Banks responded quickly to the needs of their communities—assisting with the flurry of PPP loans, helping customers transition to online banking and turning handshake meetings with customers into web conferences—but Schaefer believes it's time to step back and evaluate where those changes may create risks. "What are other steps and controls we used to do when we were in the office, and are we still doing them?" 🌈

Julie Knudson is a frequent contributor to the ABA Banking Journal. This article appeared on Jan. 4, 2021. Visit bankingjournal.aba.com.

Seminars/Conferences/Webinars/Schools

SDBA EVENTS

SDBA State Legislative Day

Feb. 10, 2021 | Virtual

IRA Update Seminar

March 2, 2021 | Virtual

ABA Washington Summit

March 16-17, 2021 | Virtual

2021 Quad States Convention

June 14-15, 2021 | Rapid City

SDBA Agricultural Credit Conference

July 21-22, 2021 | Pierre

LEAD STRONG: Women in Banking Conference

Sept. 14-15, 2021 | Sioux Falls

Annual Security Seminar

Oct. 5, 2021 | Sioux Falls

NEXT STEP: Emerging Leaders Summit

Oct. 25-26, 2021 | Sioux Falls

WEBINARS

For a complete list of webinars, visit www.sdba.com/online.

BSA Emerging Issues

Feb. 16, 2021

Nailing Your Job of Head Teller

Feb. 16, 2021

Advanced TRID Compliance

Feb. 16, 2021

ACH Rule Changes: What You Need to Know

Feb. 17, 2021

Call Reporting on Loan Related Items—Part 1

Feb. 17, 2021

What to Do When a Customer Dies

Feb. 18, 2021

Social Media Compliance and Best Practices

Feb. 18, 2021

Call Reporting on Loan Related Items—Part 2

Feb. 18, 2021

Responsibilities of the Information Security Officer

Feb. 19, 2021

Call Report Updates

Feb. 22, 2021

2021 Deposit Regulatory Update and Review Seminar OnDemand with Live Streaming

Feb. 23, 2021

Characteristics of Strong Risk Assessments and Tools to Monitor and Report Results

Feb. 23, 2021

2021 BSA Officer and Staff Annual Update and Review Seminar OnDemand with Live Streaming

Feb. 24, 2021

HR Basics for Supervisors

Feb. 24, 2021

Are You Determined to Lead an Exceptional Branch?

Feb. 24, 2021

Letters of Credit

Feb. 24, 2021

Opening 40 Types of Deposit Accounts: CIP, Documentation, Procedures and More! Seminar OnDemand with Live Streaming

Feb. 25, 2021

Health Savings Accounts - Dealing with the Headaches

Feb. 25, 2021

Escrows

Feb. 25, 2021

Troubled Debt Restructuring

Feb. 26, 2021

Opening New Accounts Part 1: Personal/Consumer Accounts

March 2, 2021

Wire Transfer Compliance

March 2, 2021

W-9 Deposit Account Set Up and Interest Reporting—B Notices and Back Up Withholding

March 3, 2021

Opening New Accounts Part 2: Business Accounts

March 4, 2021

Opening New Accounts for Nonresident Aliens

March 5, 2021

Opening New Accounts Part 3: Trust and Fiduciary

March 9, 2021

Consumer Real Estate Loans

March 10, 2021

Legal Liabilities when Check Fraud Occurs

March 11, 2021

SCHOOLS

GSB Digital Banking School

March 2-26, 2021 | Virtual

Dakota School of Lending Principles

April 6-9, 2021 | Bismarck, N.D.

GSB Human Resource Management School

Starting April 12, 2021 | Virtual

GSB Bank Technology Management School

Starting April 27, 2021 | Virtual

GSB Digital Banking School

May 3-27, 2021 | Virtual

National School for Experienced Ag Bankers

June 21-24, 2021 | Spearfish

Graduate School of Banking in Colorado

July 18-30, 2021 | Boulder, Colo.

Graduate School of Banking in Wisconsin

Aug. 1-13, 2021 | Madison, Wis.

GSBC Workshop on Community Bank Investments

Sept. 15-17, 2021 | Las Vegas, Nev.

GSB Financial Managers School

Sept. 20-24, 2021 | Madison, Wis.

GSB Bank Technology Security School

Sept. 27-Oct. 1, 2021 | Madison, Wis.

GSB Sales & Marketing School

Oct. 4-8, 2021 | Madison, Wis.

GSBC Executive Development Institute for Community Bankers

Oct. 17-20, 2021 | Broomfield, Colo.

For more details and to register for a training, visit the SDDBA's online event calendar at www.sdba.com/events. Questions, contact the SDDBA's Halley Lee at hlee@sdba.com or 605.224.1653.



A NEW DIRECTION

Reimagine ↗ Reinvent ↗ Revolutionize

2021 QUAD STATES CONVENTION



June 14-15, 2021



The Monument, Rapid City, South Dakota



South Dakota | North Dakota | Montana | Wyoming

—SAVE THE DATE—

Be watching for more details.

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