

## SHOULD YOU DITCH YOUR BANK HOLDING COMPANY?



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## Does your bank need a holding company?

### Two Large Banks Eliminated Holding Companies

- Bank of the Ozarks (Arkansas)
- Bancorp South Inc. (Mississippi)



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## Does your bank need a holding company?


### Bank of the Ozarks

"The redundant administrative, accounting and regulatory cost of that infrastructure was really just wasted money."

"Additional capacity to take on more workload as our company grows"

"Vestige of the past."

-George Gleason, Bank of the Ozarks' Chairman and CEO




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## Does your bank need a holding company?

### Bank of the Ozarks

- Eliminates redundancy with compliance and accounting
- Frees up staff for other projects (quarterly and annual reports for holding company)
- Streamlines approval process for M&A (no more Fed approval)
- Potential regulatory relief when bank hits \$50B in assets



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### Does your bank need a holding company?

"Bank holding companies may have outlived their practical business value and may, in fact, be obsolete."

"Nothing in law requires their existence, and they serve no inherent banking purpose."

"Bank holding companies may continue to serve a useful purpose for large, complex companies, especially those seeking to engage in activities abroad, but they may provide less value to simpler, more traditional banking firms."

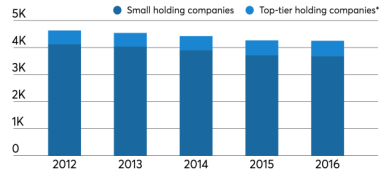
-Keith A. Noreika, First Deputy Comptroller of the Currency



### Does your bank need a holding company?

#### Preferred option

Though consolidation has reduced the number of holding companies, the structure has remained popular with banks

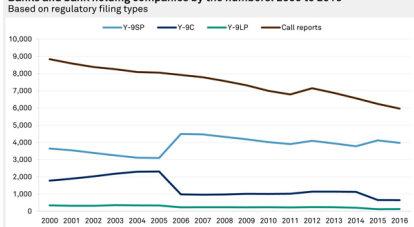


Source: Federal Reserve (\*More than \$1 billion of assets)



### Does your bank need a holding company?

Banks and bank holding companies by the numbers: 2000 to 2016



Data compiled July 24, 2017.  
Analysis excludes companies filing Thrift Financial Reports.  
Based on regulatory filings as of Dec. 31 for each year since 2000.  
Source: S&P Global Market Intelligence



### Does your bank need a holding company?

What is your current structure?

- Existing holding company
- Fed member/non-member
- Overlapping board of directors
- \$1 billion threshold
- Public securities



### Does your bank need a holding company?

<p><b>Yes</b></p> <ul style="list-style-type: none"> <li>• Small bank holding company policy</li> <li>• Financial flexibility</li> <li>• M&amp;A flexibility</li> <li>• Ability to increase non-banking activities</li> </ul>	<p><b>No</b></p> <ul style="list-style-type: none"> <li>• Reduced regulatory burden</li> <li>• "Noah's Ark" approach</li> <li>• Limit securities regulation</li> <li>• Limited non-banking activities</li> </ul>
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### Does your bank need a holding company?

**Ditch it**

Reduced regulatory oversight

- Eliminates Federal Reserve as a regulator
- Only OCC/State and FDIC
- Streamlined regulatory approach
- Eliminates Fed M&A application requirements





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### Does your bank need a holding company?

**Keep it**

Small Bank Holding Company Policy Statement

- BHCs under \$1 billion
- Relaxed leverage restrictions
- Expedited application processing


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### Does your bank need a holding company?

**Ditch it**

Eliminate Noah's Arc approach

- Two boards
- Two sets of taxes, fees and costs
- Two regulatory exams



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### Does your bank need a holding company?

#### Keep it

##### Greater financial flexibility

- Access to capital and borrowing ability
- BHC ability to hold securities and OREO
- Ability to take on greater leverage
- Easier redemption of securities



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### Does your bank need a holding company?

#### Ditch it

##### Exemption from SEC requirements

- Bank securities exempt from registration under Securities Act of 1933
- Only required to comply with regulatory policy statements regarding use of offering circulars
- Unlike SEC, the banking regulators generally will not review or comment on the offering circular



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### Does your bank need a holding company?

#### Keep it

##### M&A flexibility

- Ability to leverage acquisitions
- Streamlined application process and expedited processing
- Ability to finance acquisition capital at the ownership level under certain circumstances



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### Does your bank need a holding company?

#### Ditch it

##### Lack of non-banking activities

- Activities "closely related to banking"
- List of certain approved activities
- Opportunities for non-banking revenue
- Ability to make limited equity investments



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### Does your bank need a holding company?

**Yes**

- Under \$1 billion
- Identical boards
- Fed member
- Privately held
- No concerns with Fed
- Non-banking activities

**No**

- Over \$1 billion
- Boards don't overlap
- Public securities
- Fed non-member
- Fed M&A issues
- Traditional activities



### C Corp vs. S Corp – which is right?

Tax Cuts and Jobs Act of 2017



- Affects S corporation determination
- Effective tax years after 2017
- Decision is specific to each bank/holding company



### C Corp vs. S Corp – which is right?

**C Corporations**

- 21% tax rate
- Double taxation
- No deductions for dividends

**S Corporations**

- 37% tax rate
- Shareholder taxation
- 20% pass through deductions (29.6% effective rate)




### C Corp vs. S Corp – which is right?

Other issues that affect the determination



- Deferred tax assets
- Number and type of shareholders
- Gain on sale of assets – long-term plan
- Stock basis increase for undistributed profits
- Shareholder interest expense on acquisition debt



 **Taxes**

*“The Budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled and the assistance to foreign lands should be curtailed, lest Rome will become bankrupt. People must again learn to work instead of living on public assistance.” - Cicero, 55 BC*

**So, evidently we've learned absolutely nothing over the past 2,069 years.**

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