



**Bank Holding
Company Association**

Third Quarter, 2011

Newsletter

Volume 26, No. 3

Holding Company Management: High Adventure for the 21st Century

In the old days when someone referred to high adventure, they were typically talking about skydiving, mountain climbing, or big game hunting. Today, the term is aptly applied to bank holding company ownership and management! The challenging economy and the over-bearing regulatory environment have changed the rules of engagement for banking industry professionals. The Bank Holding Company Association Fall Seminar will give you the information you need to turn your high adventure into a raging success.

The Fall Seminar, set for Monday and Tuesday, Oct. 3-4, 2011 at the Minneapolis Airport Marriott Hotel in Bloomington, Minn., features seasoned, thought-provoking industry professionals speaking in our general sessions and at five “roll-up-your-sleeves” breakout sessions. All of the breakout session presentations will be recorded and loaded onto the BHCA website for members to access any time they like after the seminar. This way, members can listen to all the breakout sessions. No more worrying about missing any

of this great educational information!

Featured speakers include **Ed Krei**, the well-known investment and industry expert from The Baker Group of Oklahoma City. Krei knows banking and the markets like no one else; he will share his insights in a general session presentation and a highly-focused breakout session.

Also speaking is **David Bequeaith**, a Kansas City, Mo.-based compliance expert with his own consulting firm. Bequeaith uses extensive industry experience to help bankers and bank owners sort out the regulatory issues and develop strategies for keeping the regulators satisfied.

The BHCA seminars, now in their 30th year, have always been a hub of industry ideas. The upcoming Fall Seminar will feature a panel discussion between four of the sharpest industry thinkers. This will be a no-holds-barred, free-wheeling exchange of ideas, opinions and a few complaints. Participants are: economist **Jim Nowak** of United Bankers’ Bank; analyst **Ben Crabtree** of Oak Ridge Financial; regulatory



The troupe from ComedySportz kicks off the High Adventure for the 21st Century theme for the BHCA Fall Seminar.

supervisor **Ron Feldman** of the Minneapolis Federal Reserve Bank, and banker **Randy Newman** of Alerus Financial. BHCA managing director Tom Bengtson will moderate.

Opening the seminar on Monday evening will be the hilarious **ComedySportz** improvisational troupe from Minneapolis. These guys and gals will engage the audience in a fast-paced, highly entertaining after-dinner show. You’ve probably never seen anything like this at an industry meeting before!

The seminar closes on Tuesday with our headline speaker, **Steven Schussler**, the founder of the Rain Forest Café and other highly successful ventures. Schussler will share his

story from the trenches of entrepreneurship – the highs and the lows. He will also provide the motivational insight that shows how important your high adventure in holding company ownership/management really is.

Don’t delay. Register now for the BHCA Fall Seminar. You can pay by credit card and register online at www.theBHCA.org or download a registration form and return by mail with your check. We have kept our registration fees low, and we have created special pricing for your outside directors. Consider bringing your entire board and management team. The BHCA Fall Seminar offers the industry’s best two days in banking! ■

President's Column

Douglas L. Jilek
Prairie Bancshares, Inc.
Lester Prairie, Minn.



End-of-summer reflections on 1-year anniversary of Dodd-Frank Act

With the BHCA Fall Seminar coming up soon, that means summer is over. I can't believe how fast the time flies. Summer is short in Minnesota so I always try to make the most of it; I hope you do to.

One of the highlights of my summer was attending the regulatory panel this association co-sponsored with the Independent Community Bankers of Minnesota. You will find coverage elsewhere in this newsletter. BHCA is focused on education, so we are pleased to be able to present informative forums such as this.

The forum took place mid-July, very near the one-year anniversary of the signing of the Dodd-Frank Act. Fortunately, most of the law is directed at larger banks but it still is having a major impact on community banks and their holding companies. The law mandates the creation of several new rules, to be written by the various regulatory agencies. As of the middle of July, 121 new rules applicable to the banking industry had been proposed; 38 of those had been finalized. That still leaves another 215 rules yet to be addressed. The industry already has a huge compliance obligation to handle; these new rules don't help.

Perhaps the main reason for passing reform legislation in the first place was to impose new rules on some of the non-banks in the shadow banking sector. These unregulated entities were the source of many of the problems which led to the housing collapse and financial crisis of 2008. I am not a fan of the new Consumer Financial Protection Bureau, but there is one silver lining in this ominous cloud: the Bureau is supposed to bring bank-like regulation to some of the unregulated industries. Not much has happened on this front yet, but the promise of action has been written into law and I am looking forward toward the fulfillment of that promise. The appointment of a CFPB director has been bogged down by politics but once a director is in place, the Bureau will be able to go after the non-banks and I wish them all the luck in the world.

The other big objective of the Dodd-Frank Act was to resolve the too-big-to-fail problem. Several procedures

are being put in place that are designed to handle a large bank failure, should one of the mega banks or other large financial institutions get into trouble. I suppose we will never know whether these systems are successful until they are actually tested, and nobody's hoping for that. In the end, the TBTF question is a political one and our elected officials are going to have to muster up all the will they have to navigate through the next financial crisis, whether that involves a large bank failure or not.

We still have a few weeks before the snow flies. Make the most of it. I look forward to seeing you at the Fall Seminar on Oct. 3-4. ■

Welcome New Members

The Bank Holding Company Association is pleased and honored to welcome the following new members who have joined the Association recently:

Richard P. Olson, Attorney

Olson & Burns, P.C., Minot, N.D.

Olson & Burns P.C. has been serving clients throughout North Dakota since 1985. The firm's six attorneys offer services on legal matters ranging from general litigation to probate, estate planning, real estate law, business planning, and commercial transactions, with a strong emphasis on representation of financial institutions. We currently represent more than 40 banks and other financial institutions.

Paul Rosol, Risk Advisory Services

Experis, Edina, Minn.

Experis, formerly Jefferson Wells, offers innovative workforce solutions that help companies create competitive advantage. From basic to complex, we custom tailor our services to fit our clients' needs – from interim and permanent professional talent resourcing to complete project solutions in the areas of risk advisory, tax and finance & accounting.



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Company Association
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The BHCA Newsletter is published quarterly by the Bank Holding Company Association for its members. To submit an article, please contact BHCA Managing Director Tom Bengtson at 952-835-2248 or 1-800-813-4754. FAX: 952-835-2295, e-mail: info@thebhca.org.

Director's Column

By Tom Bengtson
Managing Director



Saying goodbye to a dear friend

Dennie Emmans, the long-time executive director of this association, passed away on July 26 after a six-year bout with cancer. Having known Denmie since 1994, I will miss him greatly. His July 30 funeral was well attended; several members of the BHCA were there. The presiding priest made some excellent comments connecting Denmie with the characteristics of his life-long profession in the financial services world.

After the funeral, several members of his family shared stories about Denmie at a luncheon. It was great to hear of his devoted family life. Clearly, Denmie made an impact on a lot of people. In addition to fathering six kids with his bride of 50 years, Sarah, he served on the local school board, serving as chairman for eight years. He also was very active in local athletics, having been an athlete himself in his younger years. In 2009, he was inducted as an inaugural member of the St. Francis High School Hall of Fame. After college, he pitched in the Detroit Tiger's professional baseball organization. And, Denmie was a consummate golfer, playing up through the summer of 2010.

While he headed the BHCA, he always encouraged me to cover the seminars for *NorthWestern Financial Review*. I was happy to take pictures at the events, and share them so they could be used in the association newsletter. Denmie and I shared a few lunches over the years, typically visiting at the Olive Garden Restaurant just across the parking lot from Denmie's office in Coon Rapids. He was very plugged into industry developments and he nearly always had news for me.

Most recently, Denmie was very helpful in the association's transition to my management, which began Jan. 1 after Denmie retired.

I will always remember Denmie for his upbeat nature. Even after he was diagnosed with cancer, he remained upbeat. "How ya doing, Denmie?" and he'd always say "Pretty good," even though you knew he had just completed a difficult round of chemotherapy.

He put on successful, consistent seminars for bankers, bank owners and managers. He did a lot of good for the industry, putting on more than 30 seminars, leveraging his experience as a banker for Crosstown State Bank in Ham Lake, Minn., where he worked for 14 years up until 1994.

Reflecting on the death of a friend always reminds me how precious life is. Time is short. Denmie was only 70, which seems very young to me. You never know when your time is going to be up so don't put off the important things. If you have something in life you want to do, or perhaps need to do, do it now. ■

Regulators offer industry insights at jointly sponsored panel

A three-person panel with regulatory expertise addressed about 70 bankers at a jointly sponsored presentation July 19 at the Legends Golf Club in Prior Lake Minnesota. Ron Feldman, senior vice president, Federal Reserve Bank of Minneapolis; Mark Moylan, Deputy Regional Director, FDIC; and Jim Kendrick, Independent Community Bankers Association of America, offered insights into the current regulatory environment at a meeting sponsored by the Independent Community Bankers of Minnesota and the Bank Holding Company Association.

It was the third consecutive year the two associations have worked together to present the morning panel discussion followed by an afternoon of golf.

Feldman reported that 40 percent of Minnesota's 288 holding companies are rated 3, 4 or 5 on the CAMELS scale. He said the Federal Reserve generally does not lift enforcement actions until a bank obtains a rating of 1 or 2. He said, however, that the Fed is considering options for lifting enforcement actions sooner.

Feldman noted that he is frequently asked whether regulators are deliberately encouraging industry consolidation. "The Fed is not interested in reducing the number of commu-

nity banks," he assured. "We want to see them grow. If you want to fund small business, you need banks that gather first-hand information from those small businesses. Big banks are not equipped to do that."

Industry conditions in the Upper Midwest are improving, based on the number of bank failures. Moylan said that last year by the middle of July there had already been 19 bank failures in the region. "There has been one bank failure in the Kansas City region this year," he reported. The pace of new cease and desist orders also is decreasing, he said.

"I am very optimistic about next year in terms of earnings," Moylan said. "I think the difficult times are over." He said when he begins to see banks moving other real estate owned off their books, "then I know we will have made it."

Regulators are encouraging bankers to conduct stress tests, and Moylan said bankers should remember to stress test the liabilities



The regulator forum presented on July 19 featured, from left, Mark Moylan of the FDIC; Jim Kendrick of the ICBA; Ron Feldman of the Federal Reserve Bank of Minneapolis, and Ed Drenttel of Winthrop and Weinstine.

portion of their balance sheet. He encouraged bankers to consider the impact of interest rate changes, for example.

Moylan acknowledged the growing regulatory burden, saying the impact is particularly notable at smaller banks. Nonetheless, he said, many small banks are weathering the storm. He noted that in the Kansas City region, there are 85 banks with \$20 million in assets or fewer. He said 68 of those banks are profitable.

Kendrick, an expert on accounting policies, said there is a movement to merge the accounting standards from the United States with those of Europe. The United States approach is more rules based, while the

European approach is based more on principles. As accounting standards become more internationalized, Kendrick said the need for a separate set of standards for private companies becomes greater.

Kendrick encouraged bankers to write letters to FASB when they have issues with accounting proposals. He said FASB is doing more public outreach than ever before.

The two-hour panel discussion was moderated by Ed Drenttel of the Winthrop and Weinstine law firm in Minneapolis. Mike Rothman, commissioner of commerce for the state of Minnesota, was scheduled to participate but was prevented by the state government shutdown. ■



High Adventure for the 21st Century

The Bank Holding Company Association Fall Seminar

is set for Monday and Tuesday, Oct. 3-4, 2011

at the Minneapolis Airport Marriott Hotel in Bloomington, Minn.



What to bring to the the BHCA Fall Seminar:

YOUR DIRECTORS.
Directors of member institutions get a special discounted rate on seminar registration

BUSINESS CARDS.
BHCA seminars are known for the best industry networking available. Meet other bank owners throughout the Upper Midwest.

YOUR SPOUSE.
The Seminar hotel is located across the street from the world famous Mall of America.

REGISTRATION FEES:

Members and guests:
Monday evening...\$75
Tuesday seminar...\$225

Directors from member institutions:
Monday evening...\$50
Tuesday seminar...\$125

Non-members:
Monday evening...\$125
Tuesday seminar...\$325

Bank Holding Company Association

7400 Metro Blvd., No. 217
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High Adventure for the 21st Century

Feature presentations include:

▷ *Investing in Your People*

ED KREI, Managing Director of The Baker Group, Oklahoma City, Okla., will look at the current banking industry environment and talk about ways for bank holding company owners and managers to help their employees and their banks reach their potential in any economic environment.

▷ *Meeting the toughest compliance challenges head-on*

DAVID BEQUEAITH of Bequeaith Banking Solutions, Kansas City, Mo., talks about the biggest compliance headaches for holding companies, offering remedies you won't want to miss.

▷ *It's a jungle in there*

STEVEN SCHUSSLER, founder of the Rainforest Café and many other successful theme restaurants around the country, shares his personal story of entrepreneurial high adventure. "I give people five keys to marketing and selling ideas in today's economy," Schussler says. "I

offer vivid and original examples that inspire people to say: "If he can do it, I can too!"

▷ *Industry landscape: What are the issues, challenges and opportunities?*

Four industry observers will share thoughts in a no-holds-barred conversation about the current conditions. Panel participants are: JIM NOWAK, United Bankers' Bank; BEN CRABTREE, Oak Ridge Financial; RON FELDMAN, Federal Reserve Bank of Minneapolis, and RANDY NEWMAN, president and CEO, Alerus Corp., Grand Forks, N.D.

▷ *Plus, FIVE breakout sessions:*

- Risk management for the holding company
- Strategic planning
- Investment strategies
- Liquidity planning
- Tax update.

▷ Monday night entertainment by ComedySportz, improvisation that will have you laughing and thinking at the same time!

Register online at www.theBHCA.org or call 1-800-813-4754

Minneapolis Airport Marriott Hotel

2020 East American Blvd., Bloomington, Minn. Tel. 952-854-7441. Call to reserve your hotel room before Sept. 9 to get your discounted room rate.

Fed sees signs of progress in region's banking conditions

Profits and growth remain weak at Minnesota banks, but conditions are slowly improving, according to a Federal Reserve Bank of Minneapolis report on second quarter industry performance. Conditions also are slowly improving at banks in North Dakota and South Dakota. Asset quality improved at Montana banks, while measures of earnings are mixed and growth remains weak.

“Banking conditions in Minnesota improved at a gradual pace in the second quarter,” said Ron Feldman, senior vice president for Supervision, Regulation and Credit at the Federal Reserve Bank of Minneapolis. “There was a small improvement in overall asset quality, but critical metrics like earnings and loan growth remain weak. This quarter was better than last quarter, but the pace of improvement remains slow.”

Asset quality improved overall and was similar to the previous quarter for commercial real estate loans and loans to finance construction and land development. However, asset quality measures in Minnesota were worse than those in the country overall.

Measures of earnings increased slightly for Minnesota banks, but remain around the same level as in the nation. The year-

over-year change in the amount of outstanding loans for Minnesota banks was nearly negative 5 percent. The same figure for the nation was about negative 2 percent.

“Banking conditions in North Dakota continued to improve,” Feldman said. “There was gradual improvement across a variety of metrics, including critical areas like earnings and loan growth, where key measures deteriorated in recent years. North Dakota banks fared well compared with the rest of the nation when conditions weakened, and they continue to do so as banking conditions recover.”

Asset quality improved overall despite a slight increase in past-due commercial real estate loans at the median North Dakota bank. The performance of commercial real estate lending and loans to finance construction and land development deteriorated in North Dakota as in the rest of the country in recent years. However, overall asset quality—as measured by bad loans compared to loss-absorbing resources—remains much better in North Dakota (at 10 percent) than in the United States (at 15 percent).

The median total risk-based capital ratio at North Dakota banks fell just below 13.5 percent. Alternative

Upper Midwest Holding Companies

	<i>No. of holding companies</i>	<i>No. w/assets > \$1 billion</i>
Minnesota	288	10
North Dakota	73	3
South Dakota	58	5
Montana	54	3
Wisconsin	205	7
lowa	252	12
Total	930	40

measures of capital did improve in the most recent quarter, but have fallen slightly in North Dakota over the past few years.

Feldman said conditions also improved in South Dakota. “There was an improvement in overall asset quality and earnings, but loan growth remained negative. South Dakota banks stand out for better asset quality and earnings relative to the rest of the nation,” he said.

Asset quality improved overall in South Dakota, and the state's banks have mostly avoided the problems with loans to finance commercial real estate and construction and land development that have troubled many of the nation's banks. Median measures of problem loans were just half as much in the state as in the nation as a whole.

While South Dakota banks' roughly 1 percent median return on average assets was lower than in

years past, it compares favorably to the 0.74 percent national rate. The year-over-year change in the amount of outstanding loans for South Dakota banks was negative 0.75 percent.

Asset quality measures in Montana banks showed marked improvement. Nonetheless, overall asset quality concerns and problems with commercial real estate loans were worse in Montana than in the country as a whole. The direction of earnings was less clear. Despite an improvement in the median net interest margin, the return on average assets fell from the previous quarter.

There was improvement in the capital and liquidity position of Montana banks. Total risk-based capital increased by less than half a percentage point to about 16 percent. Banks in Montana increased their use of stable funding. ■

Federal Reserve hosts informative meeting for holding company bankers

The Bank Holding Company Association enjoys a solid relationship with the primary regulator of holding companies in this region, the Federal Reserve Bank of Minneapolis. Federal Reserve Bank officials recently invited members of the BHCA Board of Directors to participate in a dialogue session at the Fed's downtown Minneapolis headquarters. Members of the Minnesota Bankers Association and the Independent Community Bankers of Minnesota also were invited to participate.

The July 27 meeting was hosted by Maryann Hunter, deputy director of the Division of Supervision and Regulation at the Board of Governors. She offered a number of observations about the current condition of the banking industry:

The level of problem assets is still high but coming down, or at least stabilizing, she said. The smallest banks have the smallest levels of problem assets. The percentage of banks losing money is declining from the 2008 high.

Federal Reserve examiners are looking closely at the level of funds in the loan loss reserve relative to problem assets, she said. "We have seen a reduction in provisioning, but we are not at a place where we can stop contributing to reserves altogether," Hunter said. "We also are looking at levels of real estate concentrations."

The Fed recently completed a study of 1- and 2-rated banks, going back to 2005. These banks typically had lower levels of leverage, higher levels of capital, diverse loan portfolios with no areas of concentration, and they generally produced average earnings.

Hunter explained that the Federal Reserve is working hard to improve communications with bankers. She said this meeting was an example of its outreach efforts, in addition to the

formation of a new community depository institutions advisory committee, and a closer working relationship with the Conference of State Bank Supervisors. In addition, the Minneapolis Federal Reserve Bank has launched

a new newsletter, sent to all holding companies in the District.

She answered questions on a number of topics, posed by members of the audience, which was made up of about 50 people. ■

WEBINAR



The Bank Holding Company Association presents...

Risk Management from the Holding Company Perspective

During the past few years, there have been several changes to the Bank Holding Company Supervision Manual; this webinar will address those changes and what holding company officers can do to respond. We will also consider the impact of the Dodd-Frank Act, interest rate risk management, capital planning/plans including payment of dividends, model risk management, and technology security planning.

Presenter **Neil Falken** is a partner in the LarsonAllen accounting and consulting firm, serving hundreds of community banks and their holding companies throughout the Upper Midwest. He brings his real-world experience to these questions, sharing answers you need to successfully navigate the current regulatory climate.

This webinar is ideal for owners, senior officers, managers and others working with bank holding companies.

Thursday, Sept. 22, 2011 ~ 10:30 a.m. to 11:30 a.m. CDT

\$99 per computer (\$59 for BHCA members)

Register today at www.theBHCA.org

Bank Holding Company Association

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Bank Holding Company News

Following is a partial report of recent bank holding company filings with the Federal Reserve Banks of Minneapolis and Chicago:

✓ Stephen L. Grobel, Tabb, Va., filed to acquire 10 percent or more of First Community Bancorp, Inc., Glasgow, Mont., and thereby acquire First Community Bank, Glasgow. In addition, Grobel and Peter J. Grobel, Helena, Mont., filed to join the Grobel Family Group which controls 10 percent or more of First Community Bancorp, Inc.

✓ Change in control notice filed by Robert Lynn Nelson, Cudjoe Key, Fla., to gain control of Kirkwood Bancorporation Co., Bismarck, N.D., and thereby gain control of Kirkwood Bank and Trust Company, Bismarck, and Kirkwood

Bancorporation of Nevada, Inc., Las Vegas, Nev., and its subsidiary Kirkwood Bank of Nevada, Las Vegas.

✓ First Western Bank & Trust, Minot, N.D., filed to merge with First Western Bank & Trust, Eden Prairie, Minn., and proposes to establish a branch in Eden Prairie, Minn.

✓ Golden Oak Bancshares, Inc., Sparta, Wis., filed to become a bank holding company by acquiring 81.5 percent of Park Bank, Holmen, Wis.

✓ Leackco Bank Holding Company, Inc., Wolsley, S.D., filed to acquire Kingsbury Bank Holding Company, De Smet, S.D., and thereby acquire Peo-

ples State Bank, De Smet.

✓ Change in control notice filed by Marci Johnson Shaw, Fairfield, Mont., to gain control of Teton Bancshares, Inc., Fairfield, and thereby gain control of Teton Banks, Fairfield.

✓ C-B-G, Inc., West Liberty, Iowa, filed to acquire up to 50.01 percent of Washington Bancorp, Washington, Iowa, and thereby increase its interest in Washington Bancorp's subsidiary, Federation Bank, Washington, Iowa.

✓ Notice filed by Michael L. Peterson, Cedar Falls, Iowa, to increase his ownership to more than 10 percent and become the largest shareholder of

Community National Bancorporation, Waterloo, Iowa, and thereby control Community National Bank, Waterloo, and Community Bank, Austin, Minn.

✓ Notice filed by Paul and Pamela Martin, Bradenton, Fla., to gain control of Evans Bancshares, Inc., Evansdale, Iowa, and thereby control First Security State Bank, Evansdale.

✓ Waukon State Bank, Waukon, Iowa, filed to merge with Viking State Bank and Trust, Decorah, Iowa. As a result of the merger, Waukon State Bank, will establish two branches in Decorah, Iowa. ■