

Bank Owner

Bank Holding Company Association Magazine

2019 BHCA FALL SEMINAR

M&A as a Strategy for Maintaining Independence

OCT. 7–8, 2019 | MINNEAPOLIS

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- » Is financial holding company election right for you?
- » Is your business at risk of receiving a software license audit?
- » Bankers beware: ATM fraud alert
- » Four things to know before starting a branch project
- » And More!

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The Bank Holding Company Association exists to provide education and business connections critical to the vitality of bank holding companies.

Found in 1981, the BHCA welcomes Members from around the country. Holding companies of all sizes from throughout the Midwest make up a majority of the current membership. Companies that serve bank owners, their holding companies and banks, are welcomed as Associate Members.

The *Bank Owner* magazine is the quarterly publication of the BHCA. The magazine is your best source for BHCA information, including upcoming events. Members receive the magazine in the mail and have access to an online version in the members-only section of our website, theBHCA.org. Managing Director Tom Bengtson serves as editor. Contact him at (952) 835-2248 or 1-800-813-4754 or email us at info@thebhca.org.

Despite unpredictable future, strategic planning is key

Predicting the future is tough. Who would have guessed the 10-year U.S. Treasury note, above 3.20 percent in November of 2018 and climbing quickly, would as of this writing, be yielding less than 1.60 percent, a yield decline of 50 percent, in a few short months? Predicting this would have been even more difficult if you were assured that during that same time inflation remained low and the economy was at full employment; many of my customers were finding it difficult to fill their open positions.

While I can't predict the future, it is important that we set plans for the direction we want to take our businesses. To do this we must first determine the purpose of our business, identify who our organization serves, and then decide how we want the organization to function in the future. Next, we create a plan and then we spend some time trying to anticipate future challenges and prepare for them. In other words, we do strategic planning.

In July, the BHCA board of directors met to set the strategic direction for the organization. We spent several hours on a Wednesday afternoon and evening working with Jaime Nolan of Skip Rock Consulting going through exercises and discussions to chart a course for the organization. Each board member added their perspective to the discussion, as did Tom Bengtson and Kelly Bauer from NFR Communications, the company that manages the association activities.

After reviewing the current mission statement, we spent some time revising it so that we could more clearly articulate the reason that the association exists and who the association serves. While we have not had a chance to finalize all the work from the session, we are moving toward a mission statement as follows: *The Bank Holding Company Association exists to provide education and business connections critical to the vitality of bank holding companies.*

Then we spent time talking about how geographically broad the BHCA target audience should be. In the end, we determined that we would not place any geographical constraints on which bank holding companies the association targets for membership. The board will evaluate the prospecting process on an ongoing basis, allocating resources to the recruiting effort as appropriate. In the last couple of years, Tom has expanded the reach of the association beyond a Minnesota-centric range to include events in Wisconsin, Iowa and Kansas City.

The financials of the association are in good order. Jaime provided some metrics common in the association industry and the BHCA rates fairly strong on a financial basis. The trends are good with a number of years of growing membership and revenue and net income. This is especially significant in light of the industry trend of a declining number of holding companies, our only eligible members.

One area in which the BHCA lags other associations is that the BHCA's revenues are strongly dependent on dues and program fees. It has no service income, which traditionally is a third category of income for most associations. While associate member sponsorships are essential to the success of our seminars, we are not relying on associate members for revenue related to endorsements or other special partnerships. The board has discussed whether we should pursue this kind of revenue and have consistently decided against it. We discussed it further at our strategic planning session and came to the same conclusion. At this time, we have not made any plans to expand this third revenue source, believing that the current revenue streams allow the association to meet our members' needs sufficiently.

The session generated several issues we need to address, principal among them is the trend in banking of fewer and fewer bank holding companies. Fortunately, we have additional opportunity to expand our membership in the Upper Midwest. There remain a significant number of holding companies in our core geography that have not yet become members. We welcome your help in encouraging them to join the group and enjoy the benefits of membership. ■



By Rick M. Wall
Highland Bancshares, Inc.
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Fed announces new payments/settlement service

The payments system is at the heart of the banking industry and payments are growing ever-more digital. Many banks and their customers want the ability to move money in a real-time fashion on a 24-7 basis.

The Clearing House Association launched a real-time payments network in November of 2017, but many smaller banks are reluctant to sign up because The Clearing House is owned by the nation's largest banks. The spirit that launched the bankers' bank movement decades ago is alive today. Back then, bankers in community institutions didn't want to do business with the big banks for fear the big banks would go after their customers; today, bankers can't ignore the potential awkwardness of partnering with The Clearing House on electronic payments. It would mean turning over access to sensitive payments information about their customers. Competition is severe enough without handing over keys to the customers.

The Clearing House is continuing to promote the growth of its RTP network, but it will never achieve universal participation from across the banking system, although today it says it has 51 percent. Representatives from smaller banks encouraged the Federal Reserve to update its payment services to accommodate real-time electronic payments. I attended one of the town hall meetings the Fed conducted on the subject last fall. Earlier, I wrote about the work that the Faster Payments Task Force conducted.

On August 5, Fed Governor Lael Brainard announced from the Federal Reserve Bank of Kansas City that the Fed would launch FedNow, a round-the-clock real-time payments and settlement service. She said the service will be available in 2023 or 2024. Brainard said the Fed would provide the service "as part of its core function of promoting an accessible, safe and efficient U.S. payment system."

The Independent Community Bankers of America quickly applauded the move. ICBA President/CEO Rebeca Romero Rainey said: "The Fed is uniquely positioned to provide equitable access to real-time payments. Today's decision will benefit consumers nationwide and serve as a launchpad to future payments innovation."

Rob Nichols, president and CEO of the American Bankers Association, offered positive comments, although more tempered than Rainey's. He said he hopes the Fed's work will speed the transition to a ubiquitous real-time payments and settlement system. "The reality is that any Fed-built system will still take some time to build, so in the meantime ABA will continue to encourage all banks to embrace the future and consider whether to connect to the existing Real-Time

Payments network offered by The Clearing House." Nichols furthermore encouraged the Fed to create a Liquidity Management Tool, and to assure that major core processing companies work quickly to accommodate real-time payment solutions.

For community bank management and owners, the question over the next four years or so is going to be what to do until FedNow is available? Answering that question might start with an assessment of the demand for real-time payments in your marketplace. Are customers asking for it? If not, do they know what it is and whether it would be of benefit to them? In some places, customers might be more aware of the concept than customers in other areas. Some of the near-real-time solutions out there may be sufficient to meet most of the current demand in the near term. Long term, however, I think it is safe to say everyone will want immediate pay and settlement.

It's Fall Seminar time!

August used to be a quiet month in the annual rhythm of my work, but now it is one of the most exciting times of the year as that's when we start publicizing the BHCA Fall Seminar. There is a lot of information about the seminar in this edition of *Bank Owner*, and you likely have seen some of the promotional materials and web advertisements. We have several new presenters at this year's seminar, so even if you have attended the last two M&A seminars put on by the BHCA, I highly encourage you to attend this all-new event. While we love to showcase new experts, we also love the fact that we have so many nationally-acclaimed industry experts who have been a part of our seminars for years.

I am quite pleased that Bill George, an internationally recognized expert on leadership, will be our closing luncheon speaker. You may know him as the former CEO of Medtronic; I was fortunate enough to work with him in the 1980s at Honeywell. I read his book "True North: Discover your Authentic Leadership" years ago. Bill shares his wisdom in the book, but even more important, his writing is based on interviews with 125 leaders from around the country. He challenges readers to define their values and lead accordingly. Every attendee at the Fall Seminar will get a copy of the book. "True North" has been out since 2007, but it's clearly a timeless classic and will be providing



By Tom Bengtson
BHCA Managing Director

Is your business at risk of receiving a software license audit?

The era of a trust-based system of software use may be coming to an end. Software publishers have historically relied on organizations to pay for what the companies thought they were using. However, software publishers are realizing that when left unchecked, most organizations will at some point get out of compliance with their licensing terms, such as by allowing more users to access the software than the organization has accounts.

Software publishers have a tool in their court, however, to help them ensure that you are following their licensing agreement: the software licensing audit. If you are unsure of what a software license audit is, it's simply having a company from which you buy software look into whether you are using the software as agreed-upon in the licensing contract. By targeting purchasers for software license audits, software publishers have been able to recover millions of dollars in license revenue. The success of these ventures will likely make these software license audits more common moving forward.

For organizations using software, now may be a good time to review your software licensing agreement for compliance. If you are not following the terms of the agreement, you may be leaving your company exposed to licensing audits, as well as the costs that could accompany them, such as breaches of contract, intellectual property infringement, and non-optimal contracts.

How will publishers know that my software licenses are out of compliance?

Some software publishers use embedded telemetry technology to track

license misuse. Other publishers will use the threat of legal action by invoking the audit clause in your organization's software licensing contract. Didn't know you had an audit clause in your software licensing contracts? You do.

Software license audits are inquiries into how software is used, how it's configured, and whether the software licenses that you've purchased cover your actual use of the software. In the best case scenario for your organization, you'll be expected to fill out a brief questionnaire to report license usage during a license software audit. In the worst case, you'll have an independent third-party audit team knocking on your door for the next three months.

There are hefty penalties associated with failing a software license audit.

Failing an audit can result in unexpected fees, which, if you're not careful, can result in huge impacts to your organization's bottom line and reputation. If found out-of-compliance with your software licensing contract, a software publisher will require your organization to procure all under-licensed software at full list price (instead of at your volume discount levels) plus the cost of audit fees. That's right: You will be expected to foot the bill for the software license audit.

A software license audit may also disrupt your business activities because it can take months to complete. When you fail a software license audit, you will at least need to buy enough licenses to close the gap. But the expense doesn't end there. Often software vendors demand you pay back-maintenance for the new licenses, too. What's more, the

risk of under-licensing and failing an audit grows every day as you deal with complex IT architecture, virtualization, and intricate license metrics.

Overspending on software licenses can also be costly.

To be safe, some organizations purchase more licenses than they need. The over-supply of licenses will help the companies stay compliant by the software company's standards, and it will reduce the risk of being audited. But being over-licensed over a long period of time can cost more than failing an audit.

Optimize IT spend, and reduce risk of noncompliance.

How you deal with that audit is a little like Goldilocks – not too much, not too little. Spend too little on licenses and you'll pay big penalties during the audit. Spend too much on licenses and you'll overspend your IT budget, which could be problematic in the long run.

The good news is that the risk is controllable. A software license management program can be the solution your organization's risk management needs. Software license management services help your organization monitor and track compliance with software license agreements, and can be customized to meet your organization's needs, whether it's to establish the foundation of a compliance program or guidance to inform future software strategies. ■

By Chris Roach, National Practice Leader, IT Security & Compliance, croach@cbiz.com, and Kris St. Martin, Bank Services Director, kstmartin@cbiz.com.



2019 BHCA FALL SEMINAR

M&A as a Strategy for Maintaining Independence



OCT. 7–8, 2019 | MINNEAPOLIS

Register Online Today: theBHCA.org

This is the M&A seminar you've been waiting for. Sustainability at many organizations means growth, both organic and acquired. The BHCA has planned this event for bankers who are serious about understanding the M&A landscape in the community banking industry so they can plan for a future that meets their needs, as well as the expectations of their shareholders and their community.

We know you have many opportunities to attend industry conferences, but the BHCA Fall Seminar is the only community bank

M&A seminar in the country specifically designed for smaller banks (fewer than \$1 billion in assets) located in the heartland of the USA. Support from sponsors enables us to keep the registration rate low for both BHCA members and non-members alike. Plus, we have made it super easy to bring your entire board or management team by offering a special rate on multiple registrations from the same organization.

See more details (**agenda and registration form**) on next several pages.

For more information
visit us at: theBHCA.org

Don't miss this opportunity to stay atop the latest M&A development in your industry.

Need more info? Call the BHCA at 800-813-4754 or email info@theBHCA.org.

2019 Fall Seminar Agenda

MONDAY, OCTOBER 7 (Food and networking breaks not shown here)

8:15 to 9:10 a.m. | **The State of the Community Bank M&A Landscape**

Curtis Carpenter & John Adams, Sheshunoff & Co. Investment Banking

The pace of M&A transactions among community banks remains strong; what does this mean for potential buyers or sellers? Carpenter and Adams will analyze the current trends. They will also explain how to get the most out of the free valuation reports Sheshunoff will provide to all seminar registrant organizations.

9:10 to 10:05 a.m. | **Organic vs. Inorganic Growth – Risks & Rewards of Both**

Kirk Hovde, Hovde Group LLC

Kirk Hovde, Managing Principal & Head of Investment Banking of Hovde Group, will take the group through the risks and rewards of both organic and inorganic growth in the current environment. With continued consolidation in the banking space, there are significant opportunities for growth, through acquisition of another institution, lift-out of a team or customer/employee dislocation.

10:30 to 11:25 a.m. | **Creating a Currency Every Bank Desires**

Lee Burrows, Banks Street Partners, a Performance Trust Co.

Lee Burrows, Vice Chairman–Investment Banking at Banks Street Partners will take the group through the evolution and growth of several very acquisitive banks. Each bank's disciplined and empathetic approach to M&A, built outstanding banks with superior performance metrics.

11:25 a.m. to 12:20 p.m. | **To Buy or Not to Buy: Assessing Growth Options**

Kevin O'Keefe, Sandler O'Neill + Partners, and Peter Chapman, Great Western Bancorp

Bank boards and managers are tasked with assessing the risk-adjusted benefits and considerations of various strategies to deploy the company's capital to drive earnings and shareholder returns. O'Keefe and Chapman will discuss methodologies, approaches and perspectives of successful growth-focused companies, including decisions related to pursuing M&A as an effective strategy.

12:45 to 1:30 p.m. | **What You Need to Know About the Current Economy**

Chris Kuehl, Armada Corp. Intelligence

Economist Chris Kuehl returns to the BHCA to offer analysis of the current economic environment and insight into the potential influence it will have on your business and your strategies for growth.

1:45 to 2:45 p.m. | **Successful Strategies to Grow, Thrive and Remain Independent**

Karen Grandstrand, Fredrikson & Byron, and Craig Dahl, TCF Financial

Karen Grandstrand will moderate a panel of bankers who are pursuing a diverse range of business strategies to successfully remain independent despite fintech challengers, regulatory changes, succession planning needs, and the evolving competitive landscape. The panel, which includes CEO Craig Dahl, will explore the expansion of diverse business lines, ways to attract and retain key staff, and mergers of equals.

2:45 to 3:45 p.m. | **Interdependence as a Strategy for Maintaining Independence**

Neil Falken, CLA

Neil Falken will explore ideas on how to work "with" other banks, affiliates, fintechs or professionals to remain independent and deliver a return that keeps shareholders happy. This session takes a deep dive into the newest buzzword – collaboration.

4:00 to 5:00 p.m. | **From \$30 mm. to \$1 B. and beyond: The Park Financial Group story**

Joseph Ceithaml, Barack Ferrazzano, and David Saber, Park State Bank

In late 2015, Park Financial Group, Inc., acquired Park State Bank, an underperforming \$30 million bank. Following another bank acquisition and a large minority holding company investment, Park Financial Group's investments currently total \$800 million in banking assets, and in 2018, Park State Bank was the No. 1 top performing community bank in the country, according to S&P Global Market Intelligence's ranking of top U.S. banks under \$3 billion. The Chairman and CEO of Park Financial Group and the organization's outside legal advisor, discuss how they navigated numerous regulatory, structuring and transaction challenges.

5:00 to 6:30 p.m. | **Reception - Sponsored by Eide Bailly**

M&A as a Strategy for Maintaining Independence

TUESDAY, OCTOBER 8 (Food and networking breaks not shown here)

8:45 to 9:45 a.m. | **A Case Study on How an MOE Can Make an Effective M&A Strategy**

Anton Moch and Edward Drenttel, Winthrop & Weinstine

Large financial institution Mergers of Equal (MOE) have been in the news lately, but a true community bank MOE happens far less frequently. This case study will explore an MOE between two community banks in the Midwest, how it was beneficial for both banks and how it provided opportunities to address issues that many community banks face including, addressing succession issues, dealing with an aging shareholder base, providing liquidity to shareholders and increasing business opportunities.

10:15 to 11:15 a.m. | **Staying Independent: The Best of Both Worlds**

Craig Mueller and David Stieber, Oak Ridge Financial

Explore real life examples of how to satisfy shareholders needs and grow at the same time. This discussion will include ideas for satisfying shareholder liquidity needs and capital options to grow. We will also discuss the characteristics of a successful buyer.

11:15 a.m. to 12:15 p.m. | **Integration Issues in a Bank Acquisition or Merger**

Scott Coleman, Ballard Spahr, LLP, and Rich Hoban, Frandsen Financial Corporation

Scott Coleman and Rich Hoban, Director of Corporate Development of Frandsen Financial, will discuss integration issues in a bank purchase, merger or branch acquisition. Topics will include: the impact of the choice of transaction structure, the importance of identification of the target bank, employee retention, data processing integration, the achievement of expense eliminations, creating a unified culture and the concerns of the buyer immediately before and after the closing.

1:00 to 2:00 p.m. | **Relationships are at the Heart of Leadership in Community Banking**

Bill George, Harvard Business School, former Medtronic CEO

Bill George will share his leadership insights on the importance of relationships in successful businesses. A Harvard Business School Fellow and author of several "True North" leadership books, George has had the opportunity to work with many banks (Fifth Third, BB&T, Sun Trust, Key Corp and others). Since 2002, he has served on the board of directors at Goldman Sachs. He will encourage the BHCA audience by affirming the "essential role" of community banking. Seminar registrants will receive a copy of his 2015 book "Discover Your True North."

Register ONLINE Today theBHCA.org



*All registrant holding companies will receive a Market Valuation Report on their subsidiary bank/s from Sheshunoff & Co.

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2019 Fall Seminar: M&A as a Strategy for Maintaining Independence

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 Phone _____ Email _____
 Guest Name(s) _____

Please indicate dietary restrictions here: _____

Are you a BHCA Member or Associate Member? Yes _____ No _____

FULL SEMINAR REGISTRATION OPTIONS: Two, Full-Day Sessions, Meals and Networking

	Number	Amount
▶ BHCA Members	\$375 _____	_____
▶ Non-Members	\$695 _____	_____
▶ Third registrant + more (Member or Non-Member)*	\$125 _____	_____

*To receive the discounted pricing, your first two people registered must be full seminar registrations.



SINGLE-DAY REGISTRATION OPTIONS:

	Number	Amount
▶ Monday Session (Oct. 7) - BHCA Member	\$250 _____	_____
▶ Tuesday Session (Oct. 8) - BHCA Member	\$200 _____	_____
▶ Monday Session (Oct. 7) - Non-Member	\$400 _____	_____
▶ Tuesday Session (Oct. 8) - Non-Member	\$350 _____	_____

TOTAL AMOUNT ENCLOSED: \$ _____

Mail Registration to: Bank Holding Company Association
7400 Metro Blvd., Suite 217, Minneapolis, MN 55439

Cancellation Policy: Due to commitments and expenses, all cancellations after Sept. 3, 2019 will be subject to a \$200 processing fee. We regret that no refunds will be given after Sept. 18, 2019; however, substitutes are welcomed anytime. Cancellations or substitutions must be made in writing (to Kelly@theBHCA.org) or faxed to 952-835-2295. The BHCA assumes no liability for any nonrefundable travel, hotel or related expenses incurred by registrants. By registering, you authorize the BHCA to use your photo and/or video image for promotional purposes.

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Provided by OneBeacon Financial Services

Bankers beware: ATM fraud alert

As the use and sophistication of technology increases, it would stand to reason that it would be more difficult for fraudsters to gain access to bank accounts via ATMs. Unfortunately, crooks seem to be equally sophisticated, and quickly outwit many safeguards soon after they are put in place. Here are some highlights (lowlights) and examples of ATM frauds that are unfolding across the country.

Confirm that your ATMs are EMV chip enabled.

A particular type of ATM fraud is showing up in many areas. It involves the use of foreign counterfeit cards being used at ATMs. While the cards used in the fraud have EMV chips, the ATMs that have been attacked were not EMV chip enabled. The fraudsters find the institutions without the EMV enabled ATMs, empty the cash with fraudulent transactions, and then drive to the next branch location (assuming that more of that particular bank's ATMs are not EMV enabled). The lack of EMV hardware shifts the financial liability for the fraud back to the bank that owns the ATM.

Confirm that your ATMs are EMV chip enabled. If not, you should consider restricting access of any cards that aren't issued by your bank, and call your ATM vendor to get the EMV hardware and software installed immediately.

Cardless ATM transactions.

While they sound convenient, cardless ATM transactions are now the



newest target of fraud.

Fake Text Scam: Customers can receive text messages "from the bank" that send them to a fake link. The customer is told that their account has been locked and they need to provide personal information. This information is then used to initiate and complete cardless ATM transactions.

Cloned Phone Scam: Many of these scams are originating while a customer is using unsecure public Wi-Fi. The fraudsters are able to gain login and account information as well as phone information. They use the information to clone the customer's phone or add a new number to the account to initiate transfers.

ATM security suggestions.

- Confirm that your ATMs are EMV chip enabled.
- Educate customers to use mobile banking apps on either their

cellular network, or on a secure Wi-Fi network.

- Remind customers that the bank does not send "unsolicited" emails or texts.
- Limit cardless ATM withdrawals to a small dollar amount and limit daily usage.
- Limit the timeframe that a transaction code is viable.
- As it becomes available, utilize biometric identification (fingerprints, iris and facial recognition).
- Maintain usage of multi-factor authentication methods. ■

For more information, contact Craig Collins, OneBeacon Financial Services, at CCollins@onebeacon.com.

Is financial holding company election right for you?

By Darcey Quist

If a bank holding company is in good condition and would like increased flexibility to engage in nonbanking activities, it may want to elect to be treated as a financial holding company. A financial holding company can engage in a variety of activities beyond those that are permissible for a bank holding company (more on this below). Certain criteria must be met to become a financial holding company at the time of the election and on an ongoing basis, but the process to elect financial holding company status is actually rather simple. The bank holding company must file a written declaration with the following information:

- A statement that the bank holding company elects to be a financial holding company.
- The name and head office address of the bank holding company and of each depository institution controlled by the bank holding company.
- Certification that the bank holding company and all depository institutions it controls are well capitalized as of the date the bank holding company submits its declaration.
- The capital ratios as of the close of the previous quarter for all relevant capital measures for the bank holding company and each depository institution that it controls on the date the company submits its declaration.
- Certification that the bank holding company and each depository institution controlled by the company are well managed as of the date the company submits its declaration.
- A signature of an official or representative with authority to legally bind the bank holding co.

In addition, the election would not be deemed effective if any insured depository institution of the bank holding company does not have a rating of at least Satisfactory under the Community Reinvestment Act.

There is a similar process for a savings and loan holding company that is both filing an application to convert to a bank holding company and electing to be a financial holding company. The request to be a financial holding company is submitted with the bank holding company application and must include the following information.

- A statement that the company seeks to become a financial holding company on consummation of its proposal to become a bank holding company.
- Certification that the company and each depository institution that would be controlled by the company on consummation of its proposal to become a bank holding company will be both well capitalized and well managed as of the date the company consummates the proposal.
- The capital ratios as of the close of the previous quarter for all relevant capital measures for the savings and loan holding company and each depository institution that it controls on the date the company submits its declaration.

Again, the election would not be deemed effective if any depository institution controlled by the bank holding company does not have a rating of at least Satisfactory under the Community Reinvestment Act.

A common question is whether a small bank holding company is required to provide consolidated capital ratios to demonstrate it is well capitalized. Regardless of whether a small holding company ordinarily reports consolidated capital ratios, the company is required to provide these ratios for the financial holding company election. After doing so, compliance with the Small Bank and Savings and Loan Holding Company Policy Statement will satisfy the capital-related requirements necessary to maintain its financial holding company status.

The benefits of financial holding company status for a company include the potential for engaging in additional activities and the ease of commencing those activities. While bank

Down to Business, Continued from page 5

lessons to open-minded executives for decades to come.

This year's seminar offers not only a dozen informative and thought-provoking presentations, but every bank will receive a free Market Valuation Report from Sheshunoff & Co. John Adams and his colleagues at Sheshunoff have offered to provide this report so that every banker can get a general idea of the factors influencing their institution's value. Even if you never plan to buy or sell bank assets, this report can be an eye-opener and conversation starter for bank boards, senior managers and shareholders.

I sincerely appreciate the support of our dedicated group of BHCA Associate Members, who step up to sponsor our seminars. I try to give them all the recognition I can; without

their support, we would not be able to put on seminars of the quality you (our members) have come to expect. Be sure to thank an Associate Member and especially thank a sponsor at the seminar Oct. 7–8.

Haven't registered yet? What are you waiting for?! Plan now to attend; perhaps put together a group from your organization, including directors, and holding company and bank officers. Register them all, because after the first two registrations, additional registrations are just \$125. That's not a typo. Yes, \$125. But don't delay. The hotel ballroom has capacity limitations so we are going to have to limit registrations to the first 400 people. ■

Fed Notes, Continued from previous page

holding companies can engage in nonbanking activities that are closely related to banking—such as lending, data processing, or insurance agency activities in small towns—financial holding companies can engage in activities that are defined as financial in nature or incidental to a financial activity. Some of these activities include insurance underwriting, securities dealing, merchant banking, securities underwriting, and investment advisory services. A financial holding company must provide notice to the Federal Reserve each time it engages in a new activity for the first time or acquires control of a nonbanking company. The notice must be filed within 30 calendar days after the commencement of the activity or the acquisition and consists only of the FR Y-10 reporting form. A bank holding company, on the other hand, generally has a more extensive process to obtain authority to engage in nonbanking activities.

There are also nonfinancial or commercial activities that a financial holding company may engage in if the Federal Reserve Board determines that the activities are complementary to financial activities, do not pose a substantial risk to the safety and soundness of depository institutions or the financial system, and results in net benefits to the public. A notice for complementary activities; however, is required 60 days prior to engaging in the complementary activities.

As stated above, a financial holding company is required to comply with the election criteria on an ongoing basis. Noncompliance with the criteria can potentially disrupt a business line engaged in the financial holding company activities. When a financial holding company falls out of

compliance with the capital or management requirements, it must either enter into a formal enforcement action or decertify and cease financial holding company activities. Under a formal enforcement action, the company generally must return to compliance within 180 days or the Federal Reserve could require it to limit its activities to those permissible for a bank holding company. It is also important to maintain a satisfactory CRA rating. When a financial holding company falls below the satisfactory CRA rating, the board can prohibit the financial holding company from engaging in its expanded financial activities until it is in compliance.

To decertify, voluntarily or due to noncompliance, a financial holding company would simply write a letter to the Reserve Bank indicating that it no longer wishes to be treated as a financial holding company and note that it has ceased conducting activities permissible only under the financial holding company authority. Any remaining nonbank activities engaged in by the bank holding company must be permissible under section 4(c)(8) of the Bank Holding Company Act.

Financial holding company elections by Ninth District institutions are processed by the Federal Reserve Bank of Minneapolis's Mergers and Acquisitions staff. Please contact us with questions about the process or a specific activity being contemplated for a financial holding company. ■

Darcey Quist is senior analyst in the Mergers and Acquisitions area of the Supervision, Regulation & Credit Department of the Federal Reserve Bank of Minneapolis.

Fed Notes, Continued on next page

By Sean Raboin

Four things you need to know before starting a branch project

When you first engage with an architect for your new bank branch, what do you need to know? There are some components that go into starting a bank that need to be out in the open from the beginning. These include your culture, customer demographics, services and vision.

1. Your Culture: A bank's culture is more than just its people. Culture also includes a bank's mission and values. In a way, it's your culture that guides your people. Both employees and customers learn about who you are, which helps them understand why they do business with you.

Even if the way you portray your culture isn't obvious to bank customers, visitors and community members, they will still experience your culture when they visit your branch. Branches built around a culture, or set of core concepts, ends up being something

customers can really feel when they visit. The culture is directly tied to the customer experience.

2. Your Customer Demographics.

Who are your customers? If there's one thing to say about successful branches, it's that they have a clear understanding of their customer base. Nowadays, the financial market is more competitive than ever, but understanding who their customers are gives community branches an edge. People from different generations, neighborhoods and socioeconomic backgrounds have different financial goals and interests. For example, the branch design and customer experience will be different if it's an ag bank versus a business bank.

3. Your Services. Determining your culture and your demographics will also help in determining which services your branch will be providing. As a bank, it might seem obvious what services

you'll provide, but one of the ways neighborhood banks set themselves apart is through the services they offer. After all, different types of banks offer different types of services. For example, whether your bank is consumer, commercial, business, or investment-focused will impact which services you offer.

There are smaller decisions to be made about the services your branch will offer, too. Take, for instance, loans. Banks may offer personal loans, commercial or business loans and home or property loans as part of their primary offering. Banks also offer insurance, investments, and wealth management services.

Some other services to consider are facilitating fund transfers,

offering notary republic services to customers and ATM/ITM services. What services will your branch offer?

4. Your Vision. The final piece to bring into initial conversations with a bank architecture firm is the vision you have for your new branch. This can be a little tricky for some, but know that your full vision doesn't have to be completely fleshed out. It's enough to have a general idea of your vision, knowing that meeting with your architect will help flesh things out.

Typically, a client's vision is partially formed from the first three items on this list: their culture, customer demographics and services, but that's not where it ends. A vision is also shaped by the experience a client wants to create. It comes from answers to questions like:

- How do you want customers to feel when they visit this branch?
- What words should describe the customer experience your branch provides?
- How do you want customers to use your facility (transaction-based or relationship-based)?

Answering questions like these will help you to create a more complete vision of the branch you're going to create. When you bring these items into conversation with your bank architect, they're going to combine it with their experience and expertise to get your project started on the right foot.

Choose an architect that specializes in bank architecture. They can take your vision and meld it with the right trends and technology for your facility. ■

For more information, contact Sean Raboin at sraboin@htg-architects.com or visit www.htg-architects.com.

Holding Company Transaction Report

Here are selected recent bank holding company filings with the Federal Reserve Banks of Chicago, Minneapolis, Kansas City and St. Louis.

▷ The First National Bank, Vandalia, Ill., authorized to retain membership in the Federal Reserve System on conversion to a state chartered bank (to be known as The FNB Community Bank).

▷ NEB Corporation, Fond du Lac, Wis., filed to merge with National Bancshares Waupun, Inc. and thereby acquire NBW Bank, both of Waupun, Wis.

▷ Taylor A. Wortman, Bozeman, Mont., filed to acquire 25 percent or more of Guaranty Development Company, Livingston, Mont., and thereby acquire American Bank, Bozeman, Mont.

▷ Financial Services of Lowry, Inc., Lowry, Minn., authorized to acquire The First National Bank of Osakis, Minn.

▷ Merchants Financial Group, Inc., Winona, Minn., authorized to acquire The First National Bank of Northfield, Minn.

▷ MNB Financial Services, Inc., McCook, Neb., authorized to become a bank holding company by acquiring Graff Family, Inc., McCook, and MNB Financial Group, Inc., and thereby acquire MNB Bank. MNB Financial Services also elected to become a financial holding company.

▷ Ambanc Financial Services, Inc., Beaver Dam, Wis., and American National Bank of Beaver Dam ESOP have elected to become financial holding companies.

▷ FSB Holdings, Inc., Fairview, Ill., filed to become a bank holding company by acquiring Fairview State Banking Company, Fairview.

▷ Wintrust Financial Corporation, Rosemont, Ill., filed to acquire STC Bancshares Corp., and thereby acquire STC Capital Bank, both of St. Charles, Ill. In addition, Wintrust Financial Corporation's subsidiary bank, St. Charles Bank & Trust Company, filed to merge with STC Capital Bank.

▷ First Co Bancorp, Inc., Collinsville, Ill., filed to acquire Columbia National Bank, Columbia, Ill.

▷ Bank Forward ESOP, Fargo, N.D., filed to acquire up to 35 percent of Security State Bank Holding Company, Fargo, and thereby increase control of Bank Forward, Hannaford, N.D.

▷ The Bridger Company, Bridger, Mont., filed to acquire Valley Bank of Glasgow, Mont., and First Security Bank of Malta, Mont.

▷ Central Bancompany, Inc., Jefferson City, Mo., authorized to acquire Liberty Bancorp, Inc., Liberty, and thereby acquire Bank Liberty.

▷ ChoiceOne Financial Services, Inc., Sparta, Mich., authorized to merge with County Bank Corp, Lapeer, Mich., and thereby acquire Lakestone Bank & Trust.

▷ Intrust Financial Corporation, Wichita, Kan., authorized to acquire by merger First Newton Bankshares, Inc., Newton, and thereby acquire First Bank of Newton.

▷ Brodhead Bancshares, Inc., Brodhead, Wis., filed to acquire Farmers and Merchants Bank of Orfordville, Wis., which will be facilitated by an interim bank

merger. Subsequently, the subsidiary bank of Brodhead Bancshares, Inc., The Bank of Brodhead to merge with Farmers and Merchants Bank of Orfordville.

▷ Change in Control notice filed by Wendy Gruby, Browns Valley, Minn., and others to acquire shares of Browns Valley Bancshares, Inc. Browns Valley controls Union State Bank of Browns Valley.

▷ Pioneer Bank, Mapleton, Minn., filed to merge with The Nicollet County Bank of St. Peter, Minn., and establish branches.

▷ Fidelity Financial Bancorporation, Wichita, Kan., a savings and loan holding company, filed to become a bank holding company upon the conversion of its subsidiary, Fidelity Bank, Wichita, to a commercial bank.

▷ Chemical Financial Corporation, Detroit, Mich., authorized to acquire TCF Financial Corporation, Wayzata, Minn., and thereby acquire TCF National Bank, Sioux Falls, S.D.

▷ Frandsen Financial Corporation, Arden Hills, Minn., filed to acquire Peoples Bank Midwest, Hayward, Wis.

▷ Lake Shore III Corporation, Glenwood City, Wis., filed to acquire First American Bank, National Association, Hudson, Wis.

▷ Tiffany Baer Paine and Ryan T. Baer, Bemidji, Minn., filed to gain control of Security State Bancshares of Bemidji, Inc. and thereby gain control of Security Bank USA, both of Bemidji. ■

THE BHCA WELCOMES THIS NEW HOLDING COMPANY MEMBER:

Blue Ridge Bancshares, Inc.
Bill Esry
Independence, Mo.
Blue Ridge Bank and Trust Co.

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