Bank Holding Company Association

First Quarter, 2010

Newsletter

Volume 25, No. 1

Community Bank Adopts Plan for Selecting CEO Successor

By Richard Dunn and Philip Toffel, Esq.

Many community bank CEOs wrestle with how best to select a successor. What is a fair and objective way to undertake this important decision, particularly where the owner's family members, as well as career bank officers, are possible successors? How can CEOs improve the probability that their banking legacy will continue successfully for generations to come with the right leadership decisions?

About 30 percent of all companies survive through the second generation of family management. Close to 12 percent survive through to the third generation. Community banks are no exception to this generational survival rule. Three primary reasons account for most of this. First, too many community bank owners delay attention to succession. Second, poor estate planning can hamper their effective succession. And third, their succession plans are not implemented.

To overcome these impediments, succession planning for family-owned community banks should be elevated as a priority and guided by a fair and objective process. The succession-planning process, when it focuses on strengths of those who might join a community bank's executive leadership team, can be combined with estate planning and wealth transfer to help ensure continuity of family ownership and effective management. Specifically, assessment work and individual development plans customized for key officers can help a community bank build on strengths, address areas of need and plan for leadership continuity.

A case study of a South Carolina community bank proves how a succession process can sort through possible candidates and improve the probability of successful leadership – for the bank and the community, employees, customers and owners. The community bank, which we'll call Community Bank USA to protect the privacy of its management-succession candidates, recently undertook a CEO-candidate assessment and development process that involved its key officers, possible family successors to the CEO, and the relatives who control most of the bank's stock.

Community Bank USA is a strongly capitalized community bank conservatively managed and well positioned to continue its service to the community for at least another generation as a result of this success and development work. The $200 million bank maintains an equity-to-assets ratio of approximately 14 percent. While the bank is predominantly owned by members of a single family, its CEO works with other members of an executive team to direct the bank's operations, investments, the loan portfolio and capital funding activities.

The bank's owners preferred to select a family member as the successor CEO but wanted to include five of its key officers in the CEO assessment process. In this way, those five officers could offer their input about the succession decisions while benefitting from customized development planning for their own careers.

With this management-selection process, Community Bank USA's shareholders could focus on selecting leaders who could sustain the bank's service to its community, preserve the family's ownership interest and position the bank's current executive management

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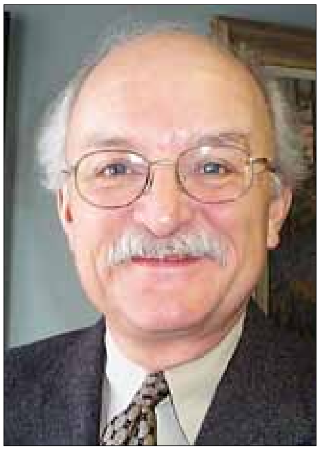
Richard Dunn is a human resources consultant at Richard Dunn and Associates in Plymouth, Minn. Philip Toffel is CEO of Sage Hill Advisory & Management in Saratoga Springs, N.Y., a wealth management firm. Sage Hill Advisory & Management is an associate member of the Bank Holding Company Association.

President's Column

Steven M. Wilcox
President, Wilcox Bancshares.
Grand Rapids, Minn.



I know that the membership of the Bank Holding Company Association includes a few football fans. The biggest challenge our association has faced in recent memory was how to handle the Monday night Viking/Packer game that conflicted with our fall seminar!

Although the baseball season is about to get underway, I am still thinking about football, particularly as Brett Favre considers whether he will return to the Vikings for the 2010 season. Favre's performance during the 2009 season was really something. His performance in that playoff game against Dallas was utterly inspirational.

Consider, the guy is 40 years old — that would be the equivalent of 85 or so in banking or any other line of work. Favre became the first 40-year-old quarterback in NFL history to win a playoff game.

Like a lot of people, I thought Favre should have retired a long time ago. When he left the Packers, I thought, that should be it. But he wanted to keep playing. When he joined the Vikings last summer, I thought, "This is ridiculous." But I am glad I was proven wrong.

The point is, just when others might think you are all done, you may have your best work in you yet. Just when others would be quitting, you may have a few more years of great service to offer. You know your own abilities better than anyone. Don't be discouraged by the norms of convention. Don't let anyone tell you that you are too old, or too anything else — too old-fashioned, too conservative, too unconventional — to do the things you want to do.

These are unique times. A lot of folks are hunkering down, taking care of their core services, as if in survival mode. But you can probably do better. This is a time to try new things. It is a time to be bold, not timid. If a football player who was supposed to be all washed up can lead a team to the conference championship game, then any of us can lead our own institutions to unexpected heights. Now is the time to surprise those in your community with new levels of commitment, new initiatives and renewed energy.

I look forward to seeing you at our spring seminar in Bloomington, May 3-4. I hope the meeting will inspire you to new levels of success. ■

Welcome New Members

The Bank Holding Company Association is pleased and honored to welcome the following new members who have joined our Association during 2010:

Steve Davis, Regional Director
Tim Anderson, Business Development Advisor
Promontory Interfinancial Network,
Des Moines, Iowa

Patrick Gaughan, President
Dan Hebert, VP of Commercial Accounts
Gaughan Companies, Forest Lake, Minn.
Specialize in commercial real estate brokerage services. Provide consulting and representation for clients buying, selling and leasing commercial real estate.

Timothy A. Naumann, Vice President
Bernstein Global Wealth Mgmt., Minneapolis
Bernstein is a research driven investment management firm. Our high net worth clients entrust us with approximately $80 billion in assets because of our 40-year history meeting client objectives.

John Pope, Owner
John Pope Company, Minneapolis
Provide business consulting services to community banks and small business in the areas of strategic planning, annual planning, marketing and sales.

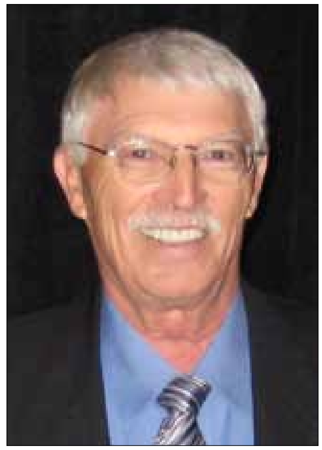
Stephanie Laitala, President
Jennifer Albrecht, Vice President, Marketing and Business Development
Owl Bookkeeping and CFO Services,
Minneapolis
Owl believes two things to be true about a small business and its money. One, it should be stable and secure. And two, there should be more of it. Our team of bookkeepers, controllers, CFOs and turnaround experts bring their wealth of expertise and wisdom to accomplish these objectives for clients.

Cathy Berch, President
Kent Dunham, Director of Business Development
Center for Practical Management, Boulder Junction, Wis.
Helping banks get better business results by giving managers the skills they need to build better relationships with their employees. We have decades of experience in the banking industry designing and deploying management systems, and coaching managers. We transform the way people manage. ■

The BHCA Newsletter is published quarterly by the Bank Holding Company Association for its members. To submit an article, please contact BHCA Executive Director Dennie Emmans at 763-784-3222 or 1-800-813-4754. FAX: 763-784-4546, e-mail: wdebhca@aol.com.

Director's Column

By W. Dennie Emmans
Executive Director



The Bank Holding Company Association's 2010 Spring Seminar will be held on Monday and Tuesday, May 3 and 4, 2010 at the Minneapolis Airport Marriott Hotel in Bloomington, Minn.

The theme for our 58th semi-annual conference is ***"The 'New Normal' for the Banking Industry"*** and should once again prove to be one of those "must attend" events for bank owners, executive officers and bank directors who wish to become informed on current regulatory, legislative, ownership, economic and strategic planning issues within the financial services industry.

Our Monday, May 3, reception and dinner program will feature S. Scott MacDonald, Ph.D., SW Graduate School of Banking, Southern Methodist University, Dallas, Texas, whose presentation titled ***"The New Big Government: Can We Survive the Cure for What Ails Us?"*** will assess the reduction of consumer and business spending for increased government spending.

Our featured noon luncheon speaker for Tuesday, May 4, is Steve Flaten, FDIC Field Supervisor, who will address a variety of current regulatory issues affecting today's banking industry.

A special noon luncheon presentation will be made by economist Bill Conerly who will discuss future strategies for your bank with his presentation titled ***"Managing in the New Normal."***

S. Scott MacDonald returns to give our general session keynote presentation titled ***"After the Storm: What will be the Future of the Banking Industry?"*** This presentation will discuss what the new banking and regulatory model of the future will be, what the new rules will look like, who will benefit, and who will not.

An additional general session presentation will be made by Dr. Dileep Rao, Carlson School of Management, University of Minnesota, whose presentation titled ***"How to Fire Up Your Business in this Cold Economy"*** is sure to convey guidance for improving profitability and increasing market share during challenging times.

In addition, several workshop sessions will be held on a variety of timely topics within the financial services industry including:

- Raising Capital in Today's Environment
- The Future of the Family Bank
- Compensation Strategies During Challenging Times
- Dealing With Distressed Commercial Real Estate
- Improvements to Branch Bank Performance and Profitability

So you won't miss any of this vital information, mark these dates on your calendar now and watch for registration information to be mailed soon.

By all indications, the BHCA Spring Seminar should once again prove to be "your best two days in banking." I look forward to seeing you on May 3 and 4, 2010. ■

BANK HOLDING COMPANY ASSOCIATION
Spring Seminar
May 3 & 4, 2010

BHCA PRESENTS

"The 'New Normal' for the Banking Industry"

Make plans now to attend the 58th semi-annual seminar of the
Bank Holding Company Association at the

MINNEAPOLIS AIRPORT MARRIOTT HOTEL

2020 East American Boulevard, Bloomington, Minnesota

Monday, May 3, 2010
5:30 p.m. to 8:30 p.m.

RECEPTION, DINNER & PROGRAM:

"The New Big Government: Can We Survive the Cure for What Ails Us?"

Our after dinner program will feature **S. Scott MacDonald**, Ph.D., SW Graduate School of Banking, Southern Methodist University, Dallas, TX who will assess the reduction of consumer and business spending for increased government spending.

MARK YOUR CALENDAR TODAY!
Don't miss any of these great speakers and much, much more!!

EVENING SESSION FEES
BHCA members and guests….….$75
Non-members……………..…....$125

GENERAL SESSION FEES:
BHCA members and guests …...$225
Non-members………..….....….$325

Tuesday, May 4, 2010
8:30 a.m. to 3:30 p.m.

Our featured noon luncheon speaker for this seminar is **Steve Flaten**, FDIC Field Supervisor who will address a variety of current regulatory issues affecting today's banking industry.

A special noon luncheon presentation will be made by economist **Bill Conerly** who will discuss future strategies for your bank in his presentation entitled ***"Managing in the New Normal"*** .

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- The Future of the Family Bank
- Compensation Strategies During Challenging Times
- Dealing With Distressed Commercial Real Estate
- Improvements to Branch Bank Profitability

To take advantage of the reduced hotel room rate contact the Minneapolis Airport Marriott Hotel at 952-854-7441 before April 19, 2010 and mention that you are reserving for the BHCA Spring Seminar

BANK HOLDING COMPANY ASSOCIATION
200 Coon Rapids Blvd. NW Suite 305, Minneapolis, MN 55433-5893
phone 763-784-3222 or toll free 800-813-4754

Your best two days in banking!!

CEO Successor,

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team for effective leadership for years to come. The current CEO and chairman led the effort.

Identifying evaluation criteria

The first step in Community Bank USA's selection process was to determine the key managerial dimensions, cultural values and banking expertise that should be assessed. Eventually five competency areas were identified as important to be featured within the bank's executive management team: thinking skills and management styles applicable to banking; planning and execution of bank operations; driving for results; relationship building and influencing, and leadership.

Twenty more specific managerial dimensions were specified during the assessment process, four in each competency group. Among these 20, the bank chose quantitative reasoning, financial acumen and risk management, cognitive ability and problem solving, ability to inspire trust and confidence, decision making, delegation and management control, ability to motivate others and emotional resilience.

The assessment process

The consultants developed and applied assessment activities that are as relevant to community banking and as real-world as possible so as to elicit actual behaviors that the CEO would practice. Therefore a banking case study was constructed by the consultants, along with bank simulation exercises, role playing involving problems at branch banks and with employees, and structured interview questions where candidates needed to interpret bank-operations issues. All the participants engaged intensely in these exercises.

From these assessment exercises, two outside assessors – consultants with expertise in industrial relations and industry psychology – evaluated the key officers' managerial dimensions. They then developed a report on each candidate considered for the CEO position, profiling him or her on each managerial dimension and describing the attributes he or she would bring to the position.

Normative data collected from thousands of assessments helped to offer some comparative ranking of the candidates on these managerial dimensions and competency areas. These data assisted the candidates in focusing on areas of comparative strength as a basis for predicting success in particular job matches.

Finally, the assessors met with the bank's current CEO and its board of directors' policy committee to review prospects for performance of each individual being considered for a future leadership role with the bank. They reviewed key results from the simulation exercises, batteries, role playing, structured interviews and interpretations of data about each person.

Objectives of Executive Succession Planning

- Determine successors and key players.
- Provide for a method to transfer control.
- Determine how to meld ownership and business priorities.
- Determine how (and whether) to create a legacy.
- Develop a plan and mechanism for ensuring that succession decisions are unbiased and fair.
- Achieve owner harmony while maintaining values and lifestyles.
- Clarify paths for owner/key executives with appropriate training.
- Ensure viability of the business by minimizing liquidity demands and ensuring competent leadership.
- Provide for contingencies and revision of the plan.

The succession decision

The consultants reviewed the profiles with each candidate, interpreted results of the assessments and discussed career alternatives that fit best with each officer. The CEO also communicated with each person individually, one on one, to discuss succession decisions and asked for his or her support. The outcome was selection of a successor CEO, a vice chair, a timetable for succession and career development plans for all individuals, including the bank's current president and the chief financial officer.

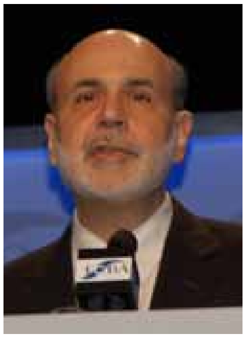
As the bank's consultant, Richard Dunn and Associates formulated a development plan with both the vice chair and CEO successor for a two-year program focusing on the specific managerial dimensions and banking competencies. Four blocks of six-month periods were structured with specific tasks to be undertaken in a banking-expertise track, with a managerial-dimension track during each period. These tasks became high-priority development actions, which focus on such matters as governance and regulatory matters, investment strategy and asset allocation, and credit underwriting. Another key part of Community Bank USA's plan is to develop numerous managerial dimensions such as risk management, strategic planning, delegation and management control, decision-making and time management.

Typically everyone finds value in an executive career-development plan grounded in this experiential data. The plan features actionable steps and ways in which Community Bank USA can easily measure whether the steps in each officer's career development plan are completed.

As the efforts of Community Bank USA show, community banks can accomplish leadership and succession planning with an objective, fair and inclusive assessment process. A community bank will find this truly works, particularly when combined with sound estate planning, a program for wealth transfer and methods for transferring control. ■

The Fed, community banks, and why we need to end TBTF

By Ben Bernanke



Ben Bernanke is the Chairman of the Federal Reserve. This is an abridged version of comments delivered March 20 in Orlando, Fla., at the annual convention of the Independent Community Bankers of America.

Among the most serious and most insidious barriers to competition in financial services is the too-big-to-fail problem. Like all of you, I remember well the frightening weeks in the fall of 2008, when the failure or near-failure of several large, complex, and interconnected firms shook the financial markets and our economy to their foundations. Extraordinary efforts by the Federal Reserve, the Treasury, the FDIC, and other agencies, together with similar actions by our counterparts in other countries, narrowly averted a global financial collapse. Even with those extraordinary actions, the economic costs of the crisis have been very severe; but I have little doubt that, had the global financial system disintegrated, the effects on asset values, credit availability, and confidence would have resulted in a far deeper and longer-lasting economic contraction. It is unconscionable that the fate of the world economy should be so closely tied to the fortunes of a relatively small number of giant financial firms. If we achieve nothing else in the wake of the crisis, we must ensure that we never again face such a situation.

The costs to all of us of having firms deemed too big to fail were stunningly evident during the days in which the financial system teetered near collapse. But the existence of too-big-to-fail firms also imposes heavy costs on our financial system even in more placid times. Perhaps most important, if a firm is publicly perceived as too big, or interconnected, or systemically critical for the authorities to permit its failure, its creditors and counterparties have less incentive to evaluate the quality of the firm's business model, its management, and its risk-taking behavior. As a result, such firms face limited market discipline, allowing them to obtain funding on better terms than the quality or riskiness of their business would merit and giving them incentives to take on excessive risks.

Having institutions that are too big to fail also creates competitive inequities that may prevent our most productive and innovative firms from prospering. In an environment of fair competition, smaller firms should have a chance to outperform larger companies. By the same token, firms that do not make the grade should exit, freeing up resources for other uses. Our economy is not static, and our banking system should not be static either.

In short, to have a competitive, vital, and innovative financial system in which market discipline encourages efficiency and controls risk, including risks to the system as a whole, we have to end the too-big-to-fail problem once and for all.

But how can that be done? Some proposals have been made to limit the scope and activities of financial institutions, and I think a number of those ideas are worth careful consideration. Certainly, supervisors should be empowered to limit the involvement of firms in inappropriately risky activities. But even if such proposals are implemented, our technologically sophisticated and globalized economy will still need large, complex, and internationally active financial firms to meet the needs of multinational firms, to facilitate international flows of goods and capital, and to take advantage of economies of scale and scope. The unavoidable challenge is to make sure that size, complexity, and interconnectedness do not insulate such firms from market discipline, potentially making them ticking time bombs inside our financial system.

The Fed and Community Banks

The Federal Reserve and community banks have much in common beyond our mutual concerns about the too-big-to-fail problem. Our interest in community banks has its roots in the founding of the Federal Reserve in 1913, nearly a century ago. President Woodrow Wilson and the other founders of the Fed, taking note of two previous failed attempts to establish a U.S. central bank, intentionally avoided creating a single, monolithic institution located in Washington or New York. Instead, they established a system of 12 Reserve Banks located in major cities around the country. Why was America's central bank given this unique structure? The reason was to provide legitimacy and a broad geographic presence across the nation for an institution that often has to make difficult decisions. Over time, this structure has provided the Federal Reserve with grassroots connections, local insights, and diverse perspectives that few other federal institutions enjoy.

Many of our regular interactions with community banks arise from our oversight of bank holding companies and state-chartered banks that choose to join the Federal Reserve System. This supervision is guided by the Board, but conducted day-to-day by the Reserve Banks and their examiners, many of whom have lived and worked within the districts they serve for many years. We believe this approach ensures that Federal Reserve supervision of community banks is consistent and disciplined but also reflects a local perspective that can take account of differences in regional economic conditions. For example, in the Midwest, where many community banks specialize in agricultural lending, Federal Reserve examiners maintain a special expertise in the agricultural economy and associated lending practices. They also draw frequently on the expertise of regional and agricultural economists in the districts to maintain an up-to-date understanding of local conditions. So while many bankers tell us that Federal Reserve examiners are analytical and tough, few tell us that they are unfair or uninformed about what's going on in the local economy. We believe that this kind of response speaks to the effectiveness of our supervisory program for community banks, and we take pride in the professionalism and quality of our community bank examiners.

One particularly valuable aspect of our federal structure is that, over the years, it has provided policymakers in Washington with a way to keep in close touch with the continent-spanning, highly varied economy of the United States. When I attend board of directors meetings at regional Reserve Banks, which I do regularly, one of the most interesting portions is the "go-round," during which each director provides his or her perspective on local economic developments. Quite often, the directors who are community bankers provide some of the most valuable contributions. That fact should not be surprising. By their nature, community banks interact with many parts of the area economy—consumers, small businesses, large businesses, real estate developers, even local governments. This breadth of vision, together with a good sense of the underlying economic forces at work in each locality, gives community bankers a unique perspective on the developments in their part of the country. When the Fed analyzes economic developments, of necessity we rely on official economic data to identify broad national trends. However, the official data often mask the diversity of the U.S. economy; moreover, the data are inherently backward-looking, telling us what happened in the past quarter or year. In contrast, the grass-roots information that we obtain from community bankers and the other community and business leaders who serve as Reserve Bank directors provides a forward-looking perspective on economic developments and concerns, as well as a level of detail and qualitative insight that is often lost in the aggregate numbers.

Our contacts with community bankers also provide critical insights into the state of our nation's banks. Because of the remarkable diversity of the U.S. financial system, a supervisory agency that focused only on the largest banking institutions, without knowledge of community banks, would get a limited and potentially distorted picture of what was happening in our banking system as a whole. Close connections with community bankers enable the Federal Reserve to better understand the full range of financial concerns and risks facing the country, such as the current difficult problems in commercial real estate lending and the impediments to small business lending. For example, recent patterns in commercial loan growth are very different at large and small banks, and our links to community bankers help us to better understand these trends. The community banking perspective is also critical as we try to assess the burden and effectiveness of financial regulation.

As a group, community banks are also important to the nation's financial stability, a particular focus and responsibility of the Federal Reserve. Although it was not the case in the current crisis, instability can be generated by small institutions as well as by large ones—as occurred in the Great Depression or in the thrift crisis, to cite two particularly dramatic examples. Additionally, as a lender through our discount window to community banks and other depository institutions, we rely on information and expertise obtained from our supervisory responsibilities to lend safely, particularly in times of stress.

For all these reasons, our supervisory relationships with the state-chartered banks that have joined the Federal Reserve System are immensely valuable, as is the range of contacts we have with community banks.

I know that community banks, with their special strengths, can flourish in a system that provides fair competition; indeed, many of you have stepped up during a difficult time to provide credit to support the economic recovery. To create a more competitive system, as well as a safer one, we need to end the too-

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INSIDE THIS ISSUE

Bank Holding Company News

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

✓ Change in Control notice filed by Charles H. Burke III, Pierre, S.D., to acquire 72 percent or more of South Dakota Bancshares, Inc., Pierre, S.D., and thereby indirectly gain control of BankWest Inc., Pierre.

✓ David Tychman, Seattle, Wash., filed to retain 25 percent or more of The Tysan Corp., Minneapolis. The trustees of the Tychman/Sanders family trust, and others, filed to retain 25 percent of Lake Community Bank, Long Lake, Minn., Pine Country Bank, Little Falls, Minn., and Blaine State Bank, Blaine, Minn.

✓ Lake Central Financial, Inc., Annandale, Minn., filed to become a bank holding company by acquiring Annandale State Bank.

✓ Notice filed by James A. Jorgenson, Jorgenson Holding Company and others to retain control of Bozeman Bancorp., Inc., Bozeman, Mont, and indirectly retain control of the Bank of Bozeman.

✓ Drayton Bancor, Inc., Drayton, N.D., filed to merge with Walsh County Bancorporation, Inc., Drayton.

✓ Notice filed by Cullen Thompson, Houston, Texas, and Betsy Lehman, Fort Morgan, Colo., to acquire shares of Faith Bank Holding Company, Faith, S.D. Faith Bank Holding Company owns Farmers State Bank, Faith, S.D. ■

The Fed,

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big-to-fail problem once and for all. We will continue to focus on this issue, and we welcome constructive ideas from all quarters.

We at the Federal Reserve look forward to maintaining our long-standing relationships with community bankers. You bring us insights into the banking industry and the economy that we can obtain nowhere else. And as the recovery progresses, we expect that you will continue to aid the nation's return to prosperity by making good loans to creditworthy borrowers in your communities. We want to continue to work with you to help you play this important role. In doing so, together we will help ensure a bright future both for our economy and for community banking. ■