Bank Holding Company Association

Second Quarter, 2011

Newsletter

Volume 26, No. 2

Editor's note: The Bank Holding Company Association conducted its 60th semi-annual seminar May 2-3 at the Minneapolis Airport Marriott Hotel in Bloomington, Minn., with approximately 200 bankers in attendance. This newsletter is devoted to coverage of the Spring Seminar, which featured general session presentations by inspirational speaker Bryan Dodge, consultant Alan Smith, former state legislator Steve Sviggum, ICBA's Karen Thomas, and economist Chris Kuehl. The seminar also included five breakout sessions.

In a first for the seminar, the event concluded with a dinner and show at the Guthrie Theatre in downtown Minneapolis. Some 25 bankers and guests enjoyed the comedy classic, Arsenic and Old Lace.

Revenue enhancing ideas offered at Spring Seminar

Based on analysis of several high-performing banks, Alan Smith of Fiserv's Bank Intelligence Solutions offered a string of ideas to boost fee income and revenues in spite of the industry's "current environment of falling service fee income."

The Durbin amendment threatens to compromise revenue growth, loan demand is flat, and bankers are being blamed for all the world's ills, Smith said. "Fee income is being legislated away at every turn," he added. Everyone is affected by reduction of service charge fee income and opt-in rates for overdraft protection are low.

Smith said that profit enhancing initiatives that might work at one bank won't necessarily work at other banks. Furthermore, he said some bankers adopt poor strategies, either because they mindlessly follow others' leads, they leap into a new product offering before examining whether it's a good fit for their market, or they simply communicate poorly.

Alan Smith

A solid first step toward improving a bank's revenue picture, Smith advised, is to "first understand how well you are doing with respect to your peers." And then, take a look at what several high performing banks are doing, including:

Improve opt-in rates for overdraft protection. If you have a formalized ODP program, Smith said, check point-of-sale denials from the previous day. A transaction listing of who was denied a sale because of a lack of funds becomes a useful call-back list to invite customers to opt in to the bank's ODP program.

Do a systematic review of waived fees. High performing banks examine fee structures at least yearly, preferably once per quarter.

Evaluate free relationships. "Look at the relationships where you aren't making revenue and develop a strategy to convert them into profitable relationships," Smith said. Big banks initiate new fees regularly, he explained. "If you aren't seeing customers abandoning the big banks and coming to you because of new fees, this means the fee is incidental to the relationship," Smith said. That's a clue that you can implement similar fees, he said.

Consider an unused line of credit fee. Untapped lines of credit cost banks money in the form of capital reserves. Consider a 50-basis point to 100-basis point fee for untapped lines of credit and bill it quarterly, Smith advised.

Prepayment penalties on fixed rate obligations. If you aren't doing a pre-payment penalty on a fixed-rate debt, "why not?" Smith asked. You can waive a pre-payment penalty if the customer pre-pays out of cash flow, he explained, but be clear that if they come back to you in six or 12 months wanting to refinance because the bank up the street offers a better rate, there will be a price to pay.

Examine late charge

Enhancing Revenues*, Continued on page 2*

President's Column

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

Seminar speaker gave us a lot to think about

I hope you enjoyed speaker Bryan Dodge as much as I did at our Spring Seminar. There were some real pearls of wisdom in his energetic presentation. I particularly remember his Monday evening presentation, when he shared his leadership philosophy, based on the acronym EAT. He said:

• "Eager," as in *be an eager learner*. The world is changing quickly and Dodge said leaders have to accept that they need to learn, grow and change in order to succeed. "Those who focus on the 'how' in life always end up working for those who focus on the 'why,'" he said. One commonality among successful leaders, Dodge said, is that they are voracious readers.

• "Argue," as in *argue your case*. Stand up and make a difference, Dodge said. "If you go to work for the industry, the industry will go back to work for you," he said.

• "Thankful," as in *be thankful*. True leaders don't focus on what others are doing but on what they do well and they always are appreciative of what they have. "Spend more time on where you are instead of where you're not, and what you have instead of what you don't have," Dodge said. "People are depending on you so lean forward, grow, and be a leader."

Dodge returned to the stage Tuesday morning with a presentation centered on managing people or, what he termed "coaching up."

Managers have the power to produce positive transformations in their employees' home and work lives, Dodge explained. "Always remember everyone has great worth. Your job is to bring out of good people their best." Dodge asked: How do you find good people? "They find you," he answered.

Keeping good people requires more than monetary compensation, he added. Loyalty, he said, comes after you change peoples' lives for the better.

"You cannot give people on your team the dignity they deserve unless you believe in them first," he said.

As a banker, I often think about effective approaches to management; Dodge gave me more to think about, and even more to act on. ■

Enhancing revenues,

Continued from page 1

routines on loan payments. Smith estimates bankers often leave thousands of dollars on the table by not charging enough of a late fee on loan payments. His advice: charge a minimum of $150 or 5 percent of the payment amount, whatever is greater, when loan payments are late. "Late payment fees on loans are a gold mine of opportunity," Smith said, "as long as there's no waiving them."

Beyond boosting service charge fee income, Smith advised bankers to examine other revenue opportunities such as:

Wealth management. This might also be an opportunity for income, Smith said, especially if your competitors are offering it.

Loan production. Is there room for improvement? Think about working toward a 48- to 72-hour turn around on loan requests. This could be a great way to differentiate your bank from your competitors, Smith said. He also said bankers need to coach loan officers in the art of negotiation so they know how to react when customers object to offered rates.

Sales. Ask yourselves if you and your staff have the right skills to implement an effective sales culture, Smith said. Most loan officers don't want to leave the bank, typically because when they do they risk meeting rejection. But getting out of the bank to meet customers is vital in this environment, he said.

Focus on areas of greatest opportunity. Not all the things bankers can do are things bankers should do, Smith said. "You should start with a deep understanding of where and how well the bank generates revenues compared to peers."

"There is no one pattern that emerges when we examine high performing banks," Smith said. But top banks all exhibit a certain character, he explained. All of them have a strong sense of their purpose: enhancing shareholder value. ■

Welcome New Members

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

Timothy Lenhard, Chairman, President and CEO
Lake Bank Shares, Inc., Albert Lea, Minn.

Greg R. Raymo, President
First Rushmore Bancorporation, Inc., Worthington, Minn.

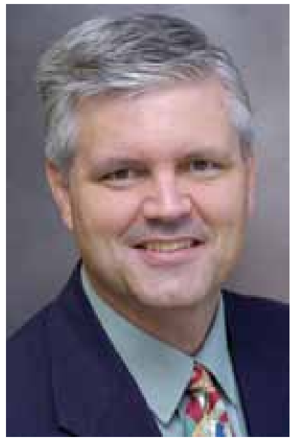
In addition, the Association welcomes the following new associate member who joined recently:

Christopher Williston, Vice President
Subchapter S Bank Association, Inc., Austin, Texas

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



Education remains BHCA hallmark

Thank you very much to everyone who attended our Spring Seminar. With tremendous sponsor support and 200 attendees, the May 2-3 event was a real success. Our general session speakers, as well as our breakout session presenters, overall received high praise in the written evaluations.

I have studied the evaluations and I took my own notes during the meeting, so I have a number of clues about how to make the Fall Seminar, set for Oct. 3-4, even better. For example, we will be sure to schedule additional time for networking. In addition, we will give BHCA members access to all our breakout sessions by recording them and making them available on our web site.

I hope you have had a chance to visit our new web site at www.theBHCA.org. We set this up in the spring so that we could accommodate on-line registration and credit card payment for the seminar. About 25 percent of our registrations came via the internet. You can already register for the Fall Seminar at the web site. Also, members can get information about industry colleagues on the web site's membership directory. In addition, you can see past editions of this newsletter. The web site is a work in progress, and we will be enhancing it throughout the year. We expect to add information, particularly about our associate memberships.

The Bank Holding Company Association primarily is an educational organization. In addition to our Spring and Fall Seminars, the association is making plans to deliver education through webinars. Computers have made it very easy and practical to deliver information right to your desk. There is a great need for additional education on topics related to bank holding companies and bank ownership; BHCA intends to help fill that void. Watch for information about our first webinar tentatively set for this September.

I have very much enjoyed my first few months as BHCA managing director. As I travel to industry meetings, people frequently ask me about the association. Clearly, it has an excellent reputation; I am impressed that even people outside the Upper Midwest are so familiar with the organization. I relish the opportunity to tell people about the BHCA, its history, and most importantly, its potential for growth and our opportunity to serve an even greater role in helping bank owners to succeed in this particularly challenging environment.

Let me close by calling your attention to the list of BHCA board members at the left of this page. The board members are essential to the success of the organization, proposing ideas and providing guidance for the BHCA's operation. Please note that Bill Rosacker, president of United Bankers' Bancorporation in Bloomington, Minn., has joined the BHCA board of directors. Bill has tremendous industry experience and will be an invaluable asset to the BHCA. ■

U.S. economy strong, relative to global picture

Chris Kuehl, economist at Armada Corporate Intelligence of Kansas City, Mo., told bankers at the BHCA Spring Seminar not to worry about China's economy becoming more powerful than the economy in the United States. He talked about the size of the U.S. economy in relative terms – GDP per capita.

"If you look at GDP as to how it affects each person in the country, China falls between Ecuador and Belize," he said. "Not to disparage China," Kuehl added, but China wouldn't have become the world's second-largest economy (behind the United States) if it weren't for the U.S. consumer, a sound reminder of the countries' mutual dependence.

And while Kuehl admits China is a surging economic force, what happens in the United States, he says, is paramount to the world's economy. Many economists, including Kuehl, point to the following areas of concern:

Oncoming inflation. Real inflation is being seen at the commodity level now with oil, agricultural commodities and metals. Commodities inflation tends to be flexible and often self-corrects. Oil prices may ameliorate, but that depends on world events and even weather. Oil consumption doesn't drive prices they way it did in 2008, Kuehl said.

Kuehl also said wage inflation isn't a concern with high unemployment, although it may appear in some employment sectors.

"We've got 22 million people out of work but entire sectors with positions they can't fill and haven't been able to fill for years," Kuehl explained. What U.S. manufacturing needs is a retooling of the vocational education system to get skilled workers, people who can operate what now are computer-driven machines in what is now a high-tech industry.

The United States, Kuehl explained, is still a manufacturing nation, accounting for 45 percent of global manufacturing while China accounts for 10 percent.

Chris Kuehl

China makes the things you find at Wal-Mart, he explained. "We make the machines that China uses to make the things we see at Wal-Mart. We make sophisticated machines, and together with Germany, we account for 80 percent of the manufacturing in the world today."

Kuehl predicts inflation will begin to affect people psychologically by mid-year, and mind-set is one of the key drivers of inflation, he said. "If you think prices will go up, you purchase now, and the act of buying actually creates the inflation you fear." Transportation costs also are affecting prices.

Severe budget deficits. Deficits are a problem at every level. Everyone who has a voice raises concern over deficits, Kuehl said, harping about discretionary spending, which amounts to roughly 13 percent of the budget. But no one will address the big issues — Medicare and Medicaid, Social Security, defense spending, or our debt service. "From an economist's perspective, that is catastrophic," he said. "At some point, we have to deal with things that are not popular."

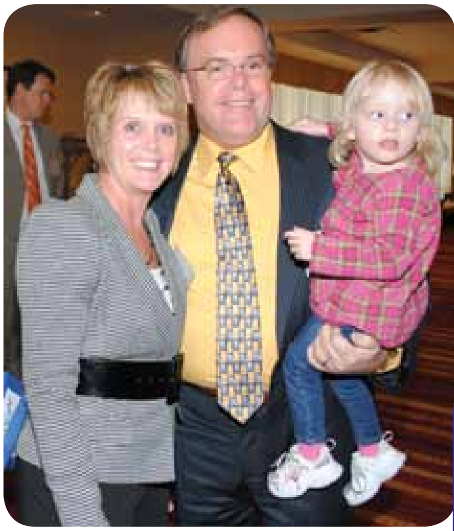
Currently, the national deficit is the same size as the GDP. It's not the end of the world, Kuehl said, we can function, but it will constrain us. Some of the decisions that need to be made will be long-term and affect the nation's ability to grow. The problem is exacerbated because you can't find two people who agree on what areas are acceptable to cut, he said.

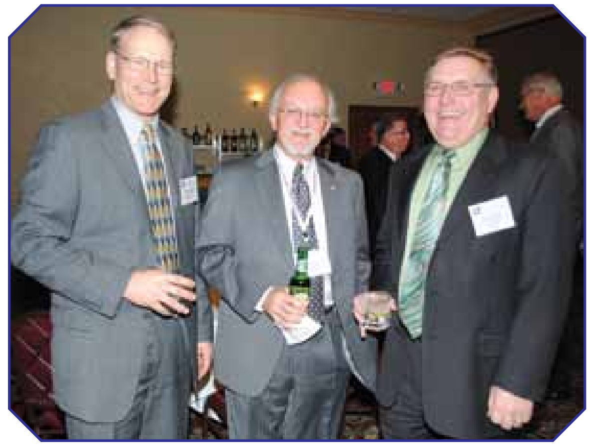
States, many with balanced budget amendments, may end up leading the way on dealing with deficits. As states experiment with spending cuts, tax increases and new fees, a strategy will emerge.

Unanticipated world events. Look what happened to supply chains after the earthquake and tsunami in Japan, Kuehl said. A fundamental change that resulted from that event is that warehousing has regained popularity after two decades of "just-in-time" delivery. Manufacturing, meanwhile, is experiencing a surge because companies are building inventories.

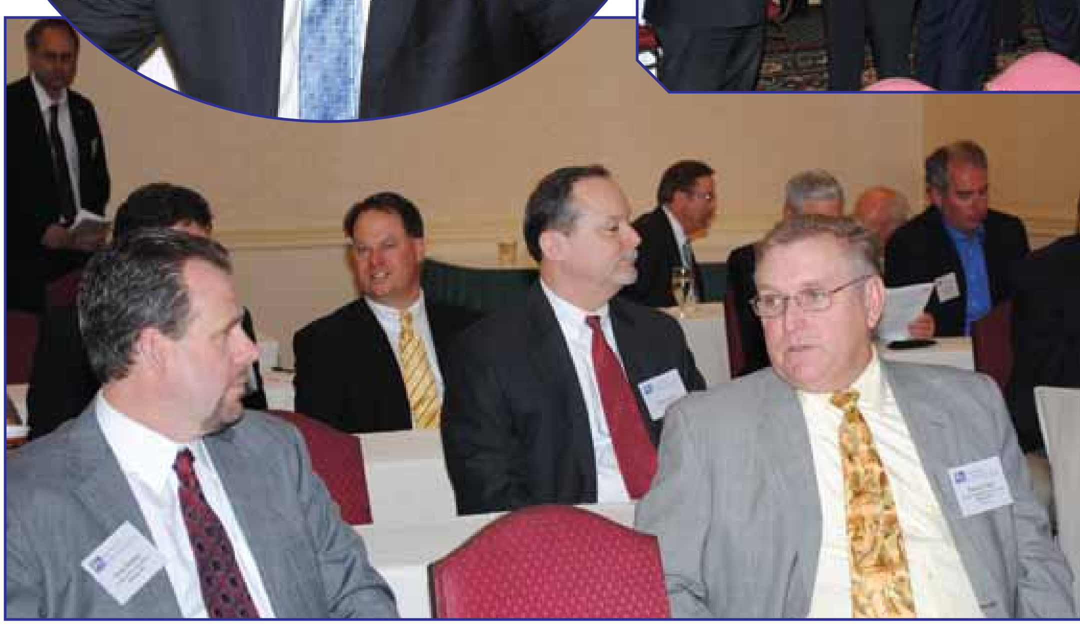
Finally, oil prices remain a challenge to the U.S. economy and because forecasters can't even agree on where oil prices will peak – somewhere between $65 and $115 per barrel — consumers can expect huge price fluctuations in gas prices at the pump through the end of 2011. The frenzy of the oil futures markets can't be predicted or sometimes even logically explained, Kuehl said. ■

Scenes from the 2011 BHCA Spring Seminar










CFA would relieve key regulatory burdens, ICBA's Thomas explains

***Editor's note**: Karen Thomas, senior executive vice president, government relations and public policy for the Independent Community Bankers of America, addressed the Bank Holding Company Association Spring Seminar via satellite. At the time, ICBA was hosting its annual Washington Policy Summit for community bankers. BHCA Managing Director Tom Bengtson conducted an interview with Thomas while the audience of approximately 200 bankers looked on. Following are excerpts:*

Q. What are bankers talking to their representatives about?

A. We heard from Rep. Blaine Luetkemeyer (R-Mo.) and he is going to introduce the Communities First Act, which will provide targeted regulatory and tax relief to community banks. Bankers are on the Hill talking up the Communities First Act. Components of the Act include: allowing community banks to amortize losses on commercial real estate loans over 10 years for regulatory capital purposes; boosting to 2,000 from 500 the number of shareholders allowed before SEC registration would be required; giving bank regulators a greater say in rule-writing at the Consumer Financial Protection Bureau; and requiring FASB to do a cost/benefit analysis before changing accounting standards. Once that bill is introduced, we will be working hard to get as many co-sponsors as we can.

The House Financial Services Committee is marking up several bills that would change the governance and some of the rules pertaining to CFPB; ICBA is supporting those bills. One would change the structure of the agency from a single director to a five-member commission. Think about the FDIC board, the Federal Reserve has seven members; the SEC has a commission. We think this would provide better balance in the rule-making and policy-setting at CFPB.

ICBA is also working on Farm Credit competition issues, and also talking to members of Congress about the repeal of Regulation Q, which takes effect on July 21, and would allow banks to pay interest to their business DDA customers. We see that as presenting a real challenge to cost-of-funding for community banks and their ability to compete with larger institutions.

Karen Thomas

Q. What are bankers saying about the significance of CFPB on community banks? Community banks have certain carve-outs, but CFPB rules apply to community banks; they will just be enforced by their own regulator.

A. Community bankers are nervous about CFPB and rightly so. It's an unknown quantity, a new agency, and we're not sure what its DNA is, how it will approach things. It has the rule-writing authority, but for banks under $10 billion in assets it's true the examination and enforcement will come from their existing bank regulator. Elizabeth Warren has been working hard getting the agency up and running. It has about 200 employees now, and they are working to be ready for July 21. They are working to merge the varied mortgage disclosures (RESPA, Fair lending, etc.) into one that serves all purposes to give consumers what they need when they are shopping for a mortgage. They are also working on a credit card project.

Professor Warren has been doing a lot of outreach to community banks, has talked to many bankers and she has said she's learned a lot about community banks. She said she appreciates the business model and the way community banks conduct their business. So we're on her radar screen in a very good way. Now we hope that translates into right action when they start writing rules. Will they accommodate community banks? Will they understand what our issues are, what our challenges are, and make those rules work for the banks as much as they work for the consumers?

Q. You mentioned as part of the Communities First Act, the 10-year amortization on real estate losses, which a lot of people want to see. How realistic is it that this will become law in 2011?

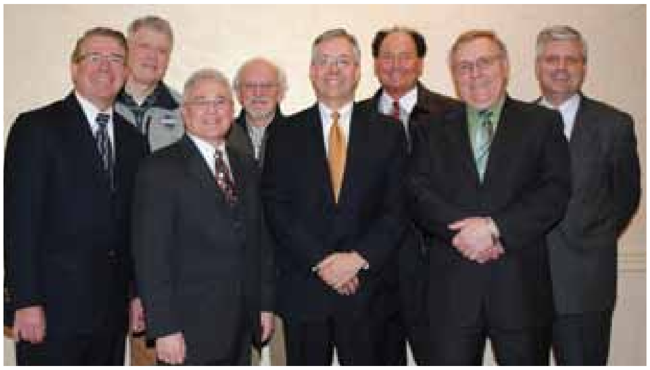
A. That one has a long, uphill climb. The lawmakers on Capitol Hill will ask bank regulators what they think about that provision and they will not get a positive answer.

Q. The regulators don't like it, but they did it in the 1980s and it worked out pretty well.

A. That's right. That's our argument, that they did it for ag lenders in the '80s. But that was pre-FDICIA.

***CFA,** Continued on page 7*

2011 BHCA Board of Directors



Bank Holding Company Association board of director members for 2011 took time out for a photo prior to the Spring Seminar. From left are: Larry Peterson, First Financial Services, Inc., Moose Lake, Minn.; Douglas L. Farmer, Farmer Bancshares, Inc., Holmen, Wis.; Treasurer Charles Robasse, Wabasso Bancshares, Inc., Wabasso, Minn.; Immediate Past President Steven M. Wilcox, Wilcox Bancshares, Inc., Grand Rapids, Minn.; Vice President Bruce Ferden, Frandsen Financial Corporation, Arden Hills, Minn.; President Douglas L. Jilek, Prairie Bancshares, Inc., Lester Prairie, Minn.; Patrick J. Gates, Security Financial Services, Inc., Hibbing, Minn., and Managing Director Tom Bengtson. Not pictured: James C. Kramer, Southeast Minnesota Bancshares, Inc., Altura, Minn., and Gary W. Paulson, First Holding Company of Park River, Inc., Park River, N.D. William Rosacker, president of United Bankers' Bancorporation, Inc., Bloomington, Minn., joins the board on July 1.

CFA, *Continued from page 6*

There's always that wrinkle that what you use for your financial statement doesn't have to match how you calculate regulatory capital, and that's what this provision would ask for — your balance sheet capital, your account statements, you cannot amortize losses over 10 years, but for regulatory capital, you would be able to. I think it's tough politically, but we're going to push it.

Q. At ICBA's annual convention, Cam Fine went on record to predict that within 10 years, credit unions would be taxed. Are you seeing anything that leads you to believe this will happen?

A. I'll put it this way. If there's a side benefit to the fiscal situation we find ourselves in it's that Congress will look for ways to bridge budget gaps whatever way they can. And we will certainly be telling them they ought to be looking at credit unions. But let's not kid ourselves. That alone will not close the budget gap. But credit union tax exemptions are no longer defensible. Credit unions ought to pay their fair share of taxes, especially since they are always asking for expansion of powers that makes them look more and more like commercial banks. ■

Former House Speaker assesses Minnesota budget quandry

Steve Sviggum, former Speaker of the House in the Minnesota legislature, and newly-appointed Regent at the University of Minnesota, talked about the multi-billion-dollar budget gap Minnesota legislators are struggling to bridge.

Balance, which Sviggum called essential in all aspects of life, is important when it comes to government. Yet politics has increasingly become polarized, Sviggum said, pointing to Wisconsin's fight to strip collective bargaining rights from state employees and the protests that followed. Sviggum used the term "wackos" to describe both fringes of the electorate — people on the left who are out of touch with reality and people on the right who've "forgotten the words cooperation and compromise." No one gets everything they want at home or at work, Sviggum said. "Certainly, we won't get everything we want from government."

Sviggum said the two radical fringes of each political party are so far gone that they are immaterial to the governing process. Most people want decent schools, good nursing homes, safe streets, good roads, but also know we can't tax people out of the freedoms and have to stay competitive. "We can't overburden businesses and stay competitive in the global market," he said. Sviggum said the Minnesota House, Senate and Governor have all gone in different directions with their budget proposals, so the bridge to gap has expanded. "They're not even working with the same numbers," Sviggum said. "How are they going to reconcile?"

Raising fees, gaming, and an internet sales tax can help Minnesota bridge the gap, in lieu of tax increases, but it won't cover it all, so compromise will be required, Sviggum said. "They all need to look for the best alternatives, which in this case likely will be a special session. By June, the best alternative might be to shut down government on July 1." ■

Steve Sviggum

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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:

✓ Notices filed by trustees of Sneer family trusts, Mankato, Minn., to acquire 25 percent or more of Farmers State Corporation, Mankato, and thereby acquire United Prairie Bank, Mountain Lake, Minn.

✓ Change in Control Notice filed by Najib G. Schlosstein, Arcadia, Wis., to acquire 25 percent or more of GEBSCO, Mondovi, Wis., and thereby gain control of Alliance Bank, Mondovi.

✓ Kristine H. Cleary, Whitefish Bay, Wis., filed to acquire control of First Bancorporation, Inc., and thereby acquire control of State Bank Financial, both of La Crosse, Wis.

✓ Change in Control Notice filed by James Anton Senty, Onalaska, Wis., to gain control of Northern Financial Corporation, Independence, Wis., and thereby gain control of Independence State Bank, Independence.

✓ Change in Control Notice filed by Brian P. Short, St. Paul, Minn., and others to retain 25 percent or more of 215 Holding Company, Minneapolis. Kevin J. Short, Mahtomedi, Minn.; and others filed to join the Short Family Group, which controls 25 percent or more 215 Holding Company.

✓ Saint Joseph Bancshares Acquisitions, Inc., Saint Joseph, Minn., filed to acquire 100 percent of Financial Bancshares Company, Becker, Minn., and thereby acquire Sherburne State Bank, Becker.

✓ First Western Bank & Trust, Minot, N.D., filed to merge with First Western Bank & Trust, Eden Prairie, Minn., and incident thereto proposes to establish a branch at 100 Prairie Center Drive, Eden Prairie.

✓ Leackco Bank Holding Company, Inc., Wolsey, S.D., filed to acquire Kingsbury Bank Holding Company, De Smet, S.D., and thereby acquire Peoples State Bank, De Smet.

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

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