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Bank Owner

The magazine of the Bank Holding Company Association



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Bank Owner

Summer 2014

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The Bank Holding Company Association

Our mission:
The mission of the Bank Holding Company Association is to provide educational information through seminars, webinars, forums and publications useful to bank owners, directors and holding company managers.

Our organization:
The Bank Holding Company Association, founded in 1981, 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 BHCA is run by a 10-member board of directors and a managing director.

Our magazine:
Bank Owner magazine is the quarterly publication of the BHCA. It is your best source for information about bank holding company and bank ownership issues. The magazine also 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 web site, www.theBHCA.org. The magazine also is distributed to bank owners and holding company professionals who are excellent candidates for membership.

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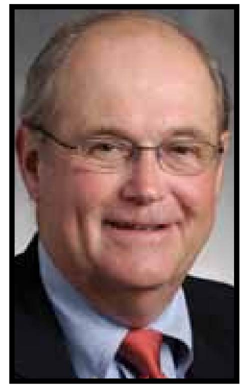
Studies confirm the significance of Too-Big-To-Fail



By William Rosacker
United Bankers' Bancorporation Inc., Bloomington, Minn.

It was great to see so many people at the BHCA Spring Seminar last month. I hope you enjoyed it as much as I did. The evaluations we received back from many seminar attendees gave all the speakers high marks. But we are always looking for more feedback. If you have ideas for either of the two seminars we put on every year, please pass them along to me or our Managing Director, Tom Bengtson. And, be sure to mark your calendar now for our Fall Seminar, which is scheduled for Monday and Tuesday, Oct. 6-7, 2014 at the Minneapolis Airport Marriott Hotel in Bloomington, Minn.

The financial crisis is now a few years behind us but one key industry problem is still with us: too-big-to-fail. The idea that a bank is too big and important to suffer the consequences of its own mismanagement has been around since the Continental Illinois incident 30 years ago. You will remember that the Chicago-based Continental was the seventh-largest bank in the country in 1984 when it went insolvent. Regulators kept the bank going. Back then, deposit accounts were insured only up to $100,000, yet regulators guaranteed all deposits regardless of how much was in any individual account. Even more importantly, in subsequent congressional hearings, the Comptroller of the Currency said at the time that the country's 11 largest banks were too big to fail.

Although the Dodd-Frank Act has attempted to deal with the too-big-to-fail problem, there is still a lot of skepticism about whether regulators would ever actually allow one of the country's largest banks to fail. During the crisis, the U.S. Treasury injected capital into the largest banks and in at least two cases those injections were necessary to keep the institutions alive. We won't know for sure how strong Dodd-Frank's provisions are for dealing with large bank failures until we are actually faced with such a situation.

In the meantime, however, even the perception of too-big-to-fail is enough to give the largest banks a significant competitive advantage over community banks. Two recently published important studies shed light on this issue. In March, the Federal Reserve Bank of New York published research that showed the largest banks can raise money more economically than other banks. "I find that the top five banks by assets pay an average 41 basis points below the smaller banks' bond spreads," writes João Santos, the Fed researcher behind the study, in a March 26 blog post. Santos explains the advantage this way: "Investors view the largest banks as being more likely to be rescued if they get into financial difficulties." We've suspected this all along, but now we have a New York Fed vice president proving the point with his research.

Another important study comes from the International Monetary Fund. On March 31, it published a report it introduced with this headline: "Big Banks Benefit from Government Subsidies." It says: "In 2012, the implicit subsidy given to global systemically important banks represented up to $70 billion in the United States." The report concludes: "This implicit subsidy distorts competition among banks, can favor excessive risk-taking and may ultimately entail large costs to taxpayers."

Both these studies are easily found on the internet and I encourage you to take a moment to read them. We need to continue to urge policy-makers to put an end to the competitive disparities, which not only hurt the community banking industry, but the economy at large.

SAVE THE DATE

Monday-Tuesday, Oct. 6-7, 2014 — 2014 Fall Seminar
Minneapolis Airport Marriott Hotel, Bloomington, Minn.

Register for all BHCA events online at www.theBHCA.org!

Trends matched in other industries, but bankers still unique

Think of an industry that has undergone major consolidation in recent history. This industry touches almost everyone, and is subject to incredible government regulation. Margins are thin; evolving technology and unpredictable customer demand cloud the long term future of the industry.

What's the industry? Banking?

No; gas stations.

I focus on banking so much that sometimes I think it is only bankers who face challenging industry conditions, but of course that's not true. Other industries face a variety of pressures, some remarkably similar to the pressures bankers face.

When I was a kid, it seemed there was a gas station on every corner. I can remember some intersections that had a gas station on all four corners. Gas sold for about 39 cents per gallon and a man in a white jumpsuit would sprint out to my dad's car to fill the tank with Ethel.

A lot has changed since the 1960s. The price of gas has increased ten-fold, we pump our own gas now, and there seem to be fewer options for places to fill 'er up.

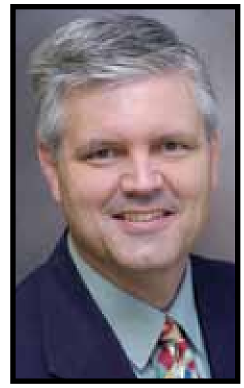
Although they are entirely separate industries, gas stations and banks have a few things in common. First, consolidation has been an important part of both. Just as many of the big names in banking (J.P Morgan and Chase Manhattan; Wells Fargo and Wachovia; Bank of America and LaSalle Bank) have merged, so have many of the big names in petroleum: British Petroleum and Amoco, Exxon and Mobil, Chevron and Texaco, and Conoco and Phillips.

Second, both industries face huge regulatory obligations. There are rules about the construction of underground storage tanks that added millions of dollars in cost to the maintenance of gas stations across the country. There are federal targets for miles-per-gallon performance of automobiles that mean people ultimately will need to buy less gas.

Third, both industries face stiff competition from non-traditional competitors. WalMart and Costco began selling gasoline in the 1990s and today these "hypermarkets" are selling about 12 percent of all the gas sold in the United States. WalMart alone has 1,100 fueling locations in the country.

And finally, both industries are feeling the effects of technology. Pay-at-the-pump, which debuted in 1986, swept the industry quickly, which made gassing up more convenient but it also means fewer customers come into the station to buy other goods. Ultimately, technology could put the gas station out of business altogether. If electric cars ever become attractive enough there won't be any need for gas stations any more.

Can bankers learn anything from the gas station industry? Maybe. Here are some of the lessons I believe we can derive from the folks who sell gasoline.



By Tom Bengtson
BHCA Managing Director

First, size matters. When margins are narrow, you have to make it up on volume. That's why you see so many super stations along the highway these days where gas stations feature as many as 40 or 50 pumps. Staffing for a large gas station isn't much different from a small station, so with a larger operation overhead can be distributed more broadly. Bankers know this and some have made headway by ramping up their assets.

Second, you can make more money by selling more stuff. The big stations not only sell more gasoline, but have elaborate offerings in their convenience stores. They make a good share of their profits peddling groceries, ready-to-eat meals and snacks, magazines and videos, and all kinds of other things. Banks that offer more than checking accounts and loans figured this out a long time ago. Some banks offer a deep menu of services, including some not-so-traditional offerings like tax preparation and financial planning.

Third, train your customers to do all the work. Apparently this isn't as hard as it might sound at first. The gas station world trained drivers to get out of their cars and pump their own gas. Granted, there was resistance at first but now everyone is pumping their own gas and today if an attendant showed up to pump the gas for you, most of us wouldn't know what to think. Many banks are essentially doing something similar. Many banks are using the internet to encourage people to sort through product offerings, fill out applications, check their balances, pay bills, and otherwise manage their money completely on their own. Banks used to tie up employees with these tasks but now many customers will simply take care of it on their own, and they prefer it that way.

So with all the similarities, would you prefer to be in the banking business or the gasoline business? I would choose banking. Although people often refer to money as a commodity, and gasoline most certainly is a commodity, bankers do more than merely sell a product. Bankers, in their role as credit facilitators, offer counsel to their customers in a manner unfamiliar to the gas station attendant.

It is always interesting to think about the bigger picture, to consider how your work fits into the larger economy. While there will always be similarities with other industries, bankers have a unique role that separates them in a remarkable way from all other players in our modern world. Bankers package their products and services in human judgment that no other professional can offer. Just like it's really the driver who makes a car go, it's thoughtful bankers who fuel the economy. ▯

By Matt Doffing

Bankers given tips to increase franchise value

There is no magic pill to make a bank high performing, but there are many small things banks can do to increase earnings, said Lynn David, president of Community Bank Consulting Services, St. Louis, Mo. David offered tips at the Bank Holding Company Association Spring Seminar conducted May 5-6 in Bloomington, Minn. "It is the little things that make your people work better, faster and stronger so you can grow your organization and make your bank high performing," David said.

One change David encouraged bankers to make immediately was to start charging for services provided. "The perception may be that the customer won't pay," he said. "They will if it is a reasonable fee."

Loan origination staff's time is worth something, David said. "You need to charge instalment fees on all loans: consumer, commercial and residential," he said.

David suggested banks charge fees for both extensions and renewals. "You extend loans for the customer's convenience, charge for it," he said. David said he sees fees in the range of $50 to $100 for extensions. For renewals, banks should charge a $50 renewal fee for commercial lines of $50,000 or less, David said. For lines larger than $50,000, banks should charge a 0.1 percent fee. "For $150,000, that would be a $150 fee," he said.

Speaking at the BHCA Spring Seminar, consultant David Lynn says bankers need to do a better job charging for services.

Restructuring products

Banks should structure products to cover cost, David said. For loans, contracts should be structured so that the customer covers costs such as legal fees, he said.

Deposit products also need to cover cost, David said. "If you haven't repackaged your deposit products recently, it is something you seriously need to consider," he said.

It was a mistake when JP Morgan Chase began charging customers $5 for a checking account, David said. The error, however, wasn't the fee; it was that the customer had no choice. "People will pay for a service as long as there is an alternative," he said.

Checking can still be free, but free checking is e-checking, David said. "This type of account requires not just e-statements but e-notices," he said. Most data processors now have the capability to entirely replace paper, he said. For customers, this means they can check balances and access their accounts without ever having to deal with paper, David said.

Customers who still prefer paper notices should be asked to pay for them. "The charge is $3 for a paper statement and $5 for paper statements and check images," David said. He suggested banks discount fees on paper notices for seniors.

David said he has checked with the regulators. "You can still call your checking product 'free' even if you are charging for paper statements," he said.

Interest checking, otherwise called "now checking" or "super-now checking," needs a $2,500 minimum balance to avoid a $7.50 a month service charge and to earn interest, David said. "They must also do e-notices with a $3 fee for check imaging," he said. "If they want to write more than 20 checks per month, it should be 25 cents per check."

On money market checking accounts, David said he sees most banks require a $5,000 balance to avoid a service charge of $7.50. These also require e-notices with fees for paper and charge $10 per debit over six debits per month.

David lamented that many banks do not charge for business checking accounts. "I am working with some banks that are giving away 250 to 400 transactions under a free checking account," he said. "Look at what you earn on business deposits. Very little, they are often at 0.25 at the Fed. You cannot afford to provide this many free transactions a month."

For small business checking, David suggested a first tier account to allow up to 75 free debits, credits, deposits per month. "Above that it's 25 cents per transaction," he said. "The next level permits up to 150 debits, credits, deposits per month; again 25 cents per item after that."

Reducing expenses

Getting rid of paper notices is the target for expense reduction, David said. "Expense reduction is postage, postage, postage," he said.

Banks can save on CD interest checks. "Discontinue them," David said. "What does the customer do when they get the check? They come in and deposit it," he said. "If the funds aren't coming to your bank, the yield on the CD should be reduced by 10 basis points for an ACH to another bank."

David also said that certain types of envelopes cost more. "Look at your night deposit envelopes. If they have the tear off receipt, you are paying twice as much as you would for a normal envelope," he said.

Banks also can combine checking account and savings account statements for cost savings. "Whether mailed or electronically presented, at least 65 percent of your savings account statements should be combined with checking accounts," David said.

Changing contract terms with venders also is a way to save, David said. "I am sure some of you are paying as much as $4.95 per user per month for online bill pay," he said. "You should be paying a fixed fee. I guarantee you that 40 percent of the customers who signed up for internet bill pay do not use it. If you have a pay-per-user contract, you need to turn it off monthly for people who have not used it for 90 days."

Couriers also are an avoidable expense, David said. "I have another client with 45 locations and no couriers. Why do we need couriers?" he said. Couriers are an unnecessary expense with scanners and the e-sign technology available today, he said.

Franchise Value,
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Thriving Banks of Future Will Grow Best Customers

The days when bankers can wait for strong loan customers to walk in the door are coming to an end, Dileep Rao predicted at the BHCA's Spring Seminar. Even banks out looking for good loan customers will struggle, said Rao, a professor of entrepreneurship at Florida International University. Soon, if banks want relationships with strong customers that last as banking competitors multiply, banks will need to train and develop entrepreneurs, he said.

"What is your strength as community banks?" Rao asked. "Is it that you have money to lend? Many others have money to lend. Is it that you have cheaper money to lend? The large banks can sell it cheaper. Is it that you do better due diligence? The venture capitalists do a great job. Is it that you dominate your local market? The internet is changing your local dominance.

"What are your options?" he continued. "Will you seek strong loans? Everyone wants strong loans. And even if you get them, will they stay tomorrow?

"What you can do is help your customers get the skills they need to become high-potential entrepreneurs," he said.

Rao interviewed 90 people who built businesses to more than $1 billion in revenue. Their ranks included Earl Bakken, the founder of Medtronic and father to Brad Bakken, the president and CEO of Citizens Independent Bank, St. Louis Park, Minn. Rao also interviewed Glenn Taylor, owner of the Minnesota Timberwolves, and Richard Schulze, the founder of Best Buy. "Many of them started with nothing and 76 percent of them didn't use venture capital," Rao said.

Community banks can grow high-potential entrepreneurs by equipping them with knowledge, Rao said. "More entrepreneurs fail because they do not know how to succeed than because they do not have financing," he said. "You need to help them find expertise; the internet cannot do this well. You do not need to give them advice, just make it available to them."

The most successful entrepreneurs linked finance and business, Rao said. "Most entrepreneurs, however, do not know how to do this," he said. "You know how to link finance and business. Bankers are people who have the knowledge of accountants and who know how to sell. You can help entrepreneurs do it."

By helping entrepreneurs gain the skills of high-potential entrepreneurs, community banks could create a loyal customer base of highly successful businesses. "Entrepreneurs need smarts more than money," Rao said. "But before you think that's bad news for community banking, remember these people were tight about equity. They didn't use venture capital, but they still had financing needs."

When the world is changing, staying put is a dangerous option, Rao said. "You can help entrepreneurs evolve to lead," he said. "That is how you add value. It is the reason they will stick with you."

By Matt Doffing

By Matt Doffing

Small banks have an edge under CFPB mortgage rules

Community banks have a potential advantage over larger competitors under the Consumer Financial Protection Bureau's ability-to-repay and Qualified Mortgage Rule, Marissa Blundell informed bankers at the BHCA's Spring Seminar. The Seminar was conducted May 5-6 in Bloomington, Minn.

"When you compare a community bank to a large institution for its ability to serve a high-net-worth person or business owners with nonstandard documentation for income, the large banks are not as able to serve the customer under QM," said Blundell, a mortgage consultant at Bankers Advisory, a division of CliftonLarsonAllen LLP, based in Belmont, Mass. "The small originator status gets you around a few of the requirements of the ability-to-repay rule."

Under the rule, which took effect in January, small originators can write qualified mortgages under a looser set of guidelines than larger originators. The advantage is twofold, Blundell said.

Under the bureau's rule, mortgages fall into two types: qualified mortgages and non-qualified mortgages. A bank can make a QM loan by considering and documenting the following eight facts about the borrower: income or assets, employment, credit history, monthly mortgage payment, other monthly payments associated with the property, other monthly obligations associated with the mortgage, and other debt. A bank must also consider borrowers' debt-to-income (DTI) ratio, which must be 43 percent or less. The bank cannot charge more than 3 percent in points and fees; and the loan cannot have a special structure such as balloon payments, negative amortization, interest-only payments or terms beyond 30 years. If a lender doesn't verify the borrower's ability to repay, or if the loan doesn't meet the DTI ratio and structural requirements, it is not a QM loan.

Sarah Lagattolla (above) teamed with Marissa Blundell of Bankers Advisory, a CliftonLarsonAllen division, to explain the impact of new mortgage rules.

What Blundell called the "small originator status" refers to an exemption within the ability-to-repay rule for banks with fewer than $2 billion in assets and which make less than 500 mortgages per year. Banks that meet these requirements can make QM loans with a DTI ratio above 43 percent, Blundell said. "In fact, the exemption sets no specific threshold for DTI or residual income," she said.

Under the ability-to-repay rule, a QM loan receives a legal "safe harbor" under which the borrower cannot challenge the bank's decision to extend credit. Non-QM loans receive only a "rebuttable presumption" under which a court will assume the bank properly determined the borrower's ability to repay unless the borrower can prove otherwise. When combined with the safe harbor of a QM loan, the effect of the small originator exemption is that small banks have less legal risk than larger banks when making the same loan. A large bank could make a mortgage loan with a 50 percent DTI ratio, but it would receive only a rebuttable presumption as legal protection. For the same loan, a community bank would get a safe harbor.

Even with the exemption, however, restrictions still apply on the type of QM loans community banks can make, Blundell said. "You must hold the loan in portfolio for three years, and the points and fees cap still applies," she said. Nonetheless, the small originator exemption is a competitive advantage for community banks. "There is an opportunity for them to customize mortgages for high net worth individuals or business owners and charge a higher rate for the service," she said, noting that banks would need to be careful not to charge a rate so high that the loan becomes a high-priced mortgage.

Legal pitfalls

Still, Blundell hesitated to call the small originator exemption a competitive advantage because the CFPB's mortgage rules are so burdensome. "These new rules from the CFPB are almost insurmountable challenges without these exemptions," she said.

In addition to new compliance cost and burden, the Dodd-Frank Act that created the CFPB also changed fair lending laws to the borrower's favor. "The law extended the period in which a consumer can bring a claim that the bank did not determine their ability to repay," Blundell said. "The statute of limitations is now three years; it was one year before Dodd-Frank. And, if a consumer becomes involved in foreclosure, they can raise issues about ability-to-repay even though the three-year period has passed."

Dodd-Frank also enhanced the possible penalties for failure to determine a borrower's ability to repay, Blundell said. "These aren't just regulatory penalties," she said. "If a consumer claimed they were given a loan they couldn't repay, a possible outcome is the refund of all finance charges paid.

"If a borrower is successful alleging the bank did not verify ability-to-repay, they could claim that they never would have gone through with the transaction," she continued. "They may even be able to claim damages like the loss of a down payment. For now, all this is just theory, however; none of this has been tried in court. We do not know how successful challenges will be under the rule and we do not know how difficult it will be for banks to demonstrate that they did make a reasonable assessment of the borrower's ability to repay."

Marissa Blundell says new rules from the Consumer Financial Protection Bureau may give bankers in community institutions an edge over mortgage lenders at large institutions.

Banks also will want to be careful about deciding to only make QM loans, Blundell said. "It is a potential fair lending issue," she said. "If you seek to mitigate your legal risk from mortgages by originating only QM loans, it may affect your ability to meet the needs of your community. The CFPB has said that the decision to only originate QM will not trigger a fair lending issue. They have said, however, that originating only QM loans is unwise because of disparate impact rules. We do not know how the CFPB will actually treat this," she said.

Additional issues include changes to Fannie Mae's and Freddie Mac's loan review process. "Now they will assess performing loans, in addition to nonperforming loans, to determine if they were originated in adherence to the ability-to-repay rule," Blundell said.

If Fannie or Freddie finds that the loan was not originated within ability-to-repay guidelines, they can return the loan to the bank for three years. "Once the loan is returned to the bank it can be past due for 30 days only once and then Fannie or Freddie will take it back," she said. "This means you need to have a more robust quality control on all your performing loans."

Community bank servicers

Community banks also have received favorable treatment in the CFPB's mortgage servicing rules, Blundell said. The exemption is fortunate for community banks because "there has been a deluge of new rules in this area in recent years," she said. "Now the rules are numerous and complex."

For the purposes of the exemption, a small servicer is a bank that, together with its affiliates, originates 5,000 or fewer loans a year. It also only services loans originated by the bank or an affiliate of the bank.

Blundell said banks in the small servicer category are exempt from certain provisions for periodic statements, early intervention in nonperforming loans, servicing policies, and even from the prohibition on force-placed insurance restrictions. ■

By Matt Doffing

The regulatory environment has taken a punitive turn

When a bank had regulatory issues years ago, regulators would put a plan in place using a memorandum of understanding or a cease-and-desist order. The attitude of regulators is very different today, said Karen Grandstrand, a partner with the Fredrikson & Byron Law Firm of Minneapolis. "With many enforcement actions pursued, particularly by agencies that are not your prudential regulator, it is driven by an attitude of punishment," she said, speaking at the BHCA's Spring Seminar, May 6 at the Minneapolis Airport Marriott Hotel in Bloomington, Minn.

Actions against directors and officers of failed banks have become retributive, Grandstrand said. "I represent a number of directors and officers who have been pursued by the FDIC. In the first round, the FDIC was interested in how much insurance money there was. It was about getting the insurance company to the table and having a confidential settlement agreement," she said. "Now, the FDIC board has made it clear that they want some money to come from the pocket of directors and officers rather than just from the insurance company."

Behind regulators' punitive turn is pressure from elected officials, Grandstrand said. "They want to be able to tell Congress they have gotten more than insurance proceeds," she said. "Even if the banker only paid one dollar, they want to be able to testify to Congress that they have punished the bankers."

Grandstrand said regulatory actions against directors and officers will soon diminish. "The height of the failures was 2010 so technically the statute of limitation should be coming for many of these cases," she said.

Prudential regulators, however, aren't the only regulators out for blood. "Headlines about regulatory action don't report a climate of cease-and-desist orders. Instead, civil money penalties are the most public actions of regulators," Grandstrand said. "And, it is not just the prudential bank regulators; many other regulators like the CFPB, SEC and a whole host of other agencies are pursing enforcement actions," she said.

Industry conditions better, not great

While the regulatory backdrop is troubling, the industry is steadily improving, Grandstrand said. "Earnings, net interest margin and loan growth are not where we want them but the numbers are better," she said.

The number of problem banks has been declining, Grandstrand said. "We are now finally under 10 percent of banks rated CAMELS 4 or 5," she said.

Grandstrand said that with the decline in watch-list banks has come declines in enforcement actions. "It is true that public enforcement actions declined in 2013. Informal agreements, however, have often replaced the public enforcement actions and MOUs," she said.

The number of banks across the country is steadily declining, while almost no new banks are opening. Part of the reason, Grandstrand said, is the increasing requirements for capital at start-up banks.

Attorney Karen Grandstrand says regulators have stepped up their enforcement efforts.

"There is obviously no magical number for the capital requirements to start a bank. If you are going to come in anywhere near the Twin Cities metro area, however, you will need between $17 million and $25 million, if not $30 million," she said. "So, while the regulators say there is no impediment to entry, and while the FDIC is waiting and ready to accept your application, I think the one small issue is capital."

Grandstrand said small community banks have been the target segment for consolidation. "Look at what has happened to banks below $100 million," she said. "We had 2,100 banks in this range back in 2013. That compares to over 3,000 at the end of 2008. About a third of the mergers since 2005 were in the under $100 million space."

Regulatory update

The agencies are behind in terms of getting the Dodd-Frank rules out, Grandstrand said. "There are supposed to be a total of 398 rules coming out," she said. "As of April 1, little more than 205 had been finalized. We have 98 that have not yet been proposed."

Grandstrand said 280 deadlines have passed for rule-makings. "So, last year was a big year for rule-making. This year will be another big year," she said.

Community banks should watch how the regulators treat large banks on stress testing, Grandstrand said. "Stress testing for community banks is coming," she said. "It's the domino effect. You need to understand the rules pertaining to banks over $50 billion. These rules say a lot about the mindset of the regulators when they look at your shop. You can say it is not fair or that it doesn't apply; it doesn't matter. Some version of the larger bank treatment will find its way into the regulators' treatment of smaller banks."

Grandstrand also urged bankers to take consumer complaints seriously. "I represent a bank that is being investigated by the CFPB because of one complaint," she said. "We are in the process of generating an immense amount of information in response. You need to have a good process around consumer complaints and respond to them."

The effect of the CFPB has been increased scrutiny in FDIC compliance exams. "I have seen in several recent FDIC exams, they are notching up their expectations on compliance," Grandstrand said. "I have a number of customers who have strong compliance

Regulatory Environment, *Continued on page 18*

Keeping talent in the bank

Editor's note: *Following his presentation at the BHCA's Spring Seminar, JR Llewellyn of Meyer-Chatfield Compensation Advisors answered questions about employee retention strategies. Following are excerpts.*

Q. What solutions have you seen for providing long-term incentive plans?

There are a lot of basic plans you can use to keep an individual. When you ask people about why they stay at an organization, compensation usually isn't first on the list. In fact, compensation comes in at No. 4. What they really want is opportunity, development and security. When you start talking with someone you want to keep, you can play to that emotional side. You say that you want them involved long-term at the bank. That sets them at ease.

We all know that dollars do play a role. So, when it comes to retention bonuses, tell them you want them around and will create a long-term incentive plan for them. One possible structure is to put $100,000 in an account for them. They can't access it for, say, four years. In the fourth year, they can access the funds plus any growth benefit. The growth rate can be connected with the bank's ROA or another metric of your choosing.

Q. On incentive plans for lenders, how do you work in credit quality?

You could add performance metrics to the growth on the funds in their account. For example, you can say that they must have loan delinquencies in less than 5 percent of their loan portfolio to get full growth in their account.

Q. Any advice on how to structure incentive plans?

It begins with a conversation. Ask them where they see themselves in 10 years and structure their incentive compensation plan around that. My boss is 60 years old this year; his kids are 12 and 13 years old. You might think that he wants to retire when actually he wants a plan that pays out commensurate with kids' college expenses.

Another example, we work with a bank in Maryland that has a 32-year-old CEO. He wants to retire at 55, so he wants a retirement program.

You do not want to make these plans so complex that they are a nightmare to administer, but you have to work with key employees to get the most value to the employee and to the bank.

Q. Do banks ever consider who can match their plan if they could lose a lender to a competing bank?

Anytime you have a competitive landscape you have to worry what other

Keeping Talent, *Continued on page 13*

Franchise Value,
Continued from page 7

Increasing franchise value through M&A

Franchise value is always quoted as a multiple of book value when a bank is bought or sold. "The real factor in franchise value is earnings," David said. In order to grow earnings, some banks are talking seriously about mergers of equals, otherwise known as strategic mergers, according to Tom Mecredy, an executive with the Memphis, Tenn.-based Vining Sparks Community Bank Advisory Group.

The banking industry still has headwinds for net interest margin, fee income, and loan growth. Returns are not what they used to be. "A high performing bank will have a 1 percent after tax ROA and 10 percent ROE, given the higher levels of capital required, the cost of doing business and the rate environment," Mecredy said.

Bankers are expressing interest in mergers of equals as a means to overcome challenges of scale, Mecredy said. "As the cost of doing business has increased, bankers see that they need to grow the franchise, organically or through M&A, in order to improve earnings," he said. "The value of the deal stems from sharing costs, synergies and other value enhancements of the combined company. And there is no bidding process. Ownership often is split based on the value contribution of the participating banks with little to no premium paid by either party."

Strategic mergers, however, can be difficult to achieve, Mecredy said. "According to SNL, strategic mergers account for just 2 percent of the 2,603 deals completed since 2002," he said.

One reason for the low number of strategic mergers is their limited success when an obvious third party is interested and can pay a significant premium, Mecredy said. Another hurdle is that members of both boards have to align on the strategic merits of the merger.

Much more often, strategic mergers fall apart because of social issues, Mecredy said. "Each bank has a CEO, a chairman, a board and executive team," he said. The proposed changes in responsibility for these people can throw a wrench in the gears, he said. "Sometimes it doesn't work because of something as simple as the name of the new organization," he said.

M&A environment

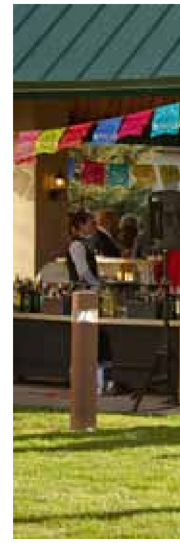
Banks are talking a lot about mergers and acquisitions but the M&A boom predicted by some still hasn't come, Mecredy said. "Certainly we are seeing steady activity. But discussion among bankers hasn't created any large increase in M&A activity," he said. "Right now, even banks that are looking to sell at some point are delaying until they can fetch the price they'd like."

Acquisition multiples remain depressed across the country, Mecredy said. "Back in 2005 we were seeing multiples in the area of 2.5 times books," he said. "In 2013, the median multiple of book was 1.18 times book. That was an increase from 1.12 times book in 2012."

More consolidation will come for banks under $500 million in assets, Mecredy said. The industry saw the number of banks between $50 million and $150 million drop by 810 during the period from 2005 to 2013. The number of banks between $150 million and $500 million has dropped by 64 over the same period, he reported. At the same time, the number of banks between $500 million and $5 billion has increased by 160. "We are not seeing any *de novo* activity," Mecredy said. "That tells me consolidation will continue as we have seen."

Mecredy gave some tips on common pitfalls in M&A. "If you are going to buy a bank, make sure you tie up the key people. You need to secure the value of what you're buying," he said. "It is common for us to see two-year, noncompete agreements with lenders and board members."

Data processing contracts also can be a stumbling block, Medredy said. "If you are buying a $100 million bank that just renewed a five-year contract with its data processor, the breakup fee is likely to be around $2 million," he said. "For most buyers that's not worth it." ■



Summer-like sunshine on May 5 allowed the opening reception to take place in the outdoor courtyard of the Minneapolis Airport Marriott Hotel.

Tom Mecredy, Vining Sparks Community Bank Advisory Group, notes increased interest in "mergers of equals" but says few such deals have actually come together.

Keeping Talent, *Continued from page 11*

banks can offer. You can get into trouble if you start to try to compete against the market. The market may pay $200,000 for an individual at your bank but he may not be worth $200,000 to your organization. Likely if you paid someone that amount, it would disrupt compensation for other employees at your bank.

We work with some banks in metro Atlanta. Their competitors for talent weren't the bank across the street; they were Fortune 500 companies that could offer far more than the bank could offer. When you hit that competitive landscape, you have to assess how valuable that person is to your organization. There is no magic incentive plan that will keep those people.

Q. Doesn't it really all come down to money? Do you ever see employees consider more than pay?

We work with a bank in Iowa that is about $250 million in assets. The CEO helped start this bank. There was a bank down the street that was well over $1 billion in assets. They wanted this CEO. They made him an enormous offer which I would have taken. He turned it down because he felt loyalty to the shareholders he pulled together.

I do not want to get all touchy-feely but if you compensate fairly, you can also brand yourself to your employees. If you ask people what you can do to make their role better and then you act on their answer, most people will not want to leave. Now, if you have an exec who wants to catapult to the next level, you may not be able to keep him. ■

New to BHCA

The Bank Holding Company Association welcomes the following holding companies which recently have joined the Association:

F&M Financial Services, Inc.
Dan Christianson
Chairman/CEO
Preston, Minn.

Milan Agency, Inc.
Erik Thompson
Vice President
Kari Torgerhagen
Secretary/Treasury
Mark Thorsland
President
Milan, Minn.

Minnesota Community Bancshares, Inc.
Daniel Otten
CEO
Mark Heinemann
President, COO
Hartland, Minn

The Bank Holding Company is also pleased to welcome the following companies which recently have joined the BHCA as Associate Members:

Performance Trust Capital Partners, LLC
Michael Ritter
Vice President
Chicago

We help community financial institutions manager their investment portfolios by challenging conventional wisdom, focusing on education, and by employing a disciplined analytical approach.

Sycorr
Jeremy Neuharth
CEO
Fargo, N.D.

Sycorr answers the questions of how to use technology to solve problems that actually matter to community banks by providing consulting and custom software solutions.

Fed Notes is provided through a partnership the Bank Holding Company Association shares with the Federal Reserve Bank of Minneapolis. If there are topics you would like to see addressed in this column, please contact Ron Feldman, senior vice president, Federal Reserve Bank of Minneapolis, at 612-204-5176 or ron.feldman@mpls.frb.org

Enhancing Transparency in the Applications Process

By Julie Randall, Applications Analyst, Federal Reserve Bank of Minneapolis

SR letter 14-2/CA letter 14-1, titled "Enhancing Transparency in the Federal Reserve's Applications Process," seeks to provide a greater understanding of the applications process and, in particular, the issues that can prevent the Federal Reserve System from taking favorable action on a proposal. When these issues are not resolved and System staff determines favorable action on the proposal cannot be recommended, System staff has typically provided the applicant the option to withdraw the application or notice before the System takes final action. The reasons for withdrawal are not public so other potential filers would not be able to identify, and thereby avoid issues that might lead to denial of a proposal. Going forward, to enhance the transparency of the applications process, the System will publish a semi-annual report consisting of statistical information on applications and notices processed. This report will include the primary reasons for withdrawals. However, it will not identify specific applicants.

Issues that have resulted in the withdrawal of applications and notices from consideration include less-than-satisfactory ratings or enforcement actions at the applicant organization; financial factors that indicate an applicant organization is not in sound financial condition on a current or pro forma basis; and managerial factors that raise concerns about the competence, experience, and integrity of the officers, directors, and principal shareholders of the applicant organization, including ineffective consumer compliance programs. Issues with respect to Bank Secrecy Act compliance, proposed changes to an organization's business plan, adverse public comments and concerns regarding competitive factors have also been obstacles to favorable action and also resulted in the withdrawal of applications and notices.

Expansionary applications and notices filed by organizations with less-than-satisfactory ratings or enforcement actions face significant barriers to approval and have generally been discouraged. The Letter states that under very limited circumstances, the System may consider proposals from 3-rated organizations. In addition to convincingly demonstrating that the proposal would not distract management from addressing or further exacerbate existing problems, such applicants must demonstrate the proposal would strengthen the organization. Our experience shows that such applicants have generally been unable to successfully make these demonstrations. Less-than-satisfactory component ratings can also be significant impediments to favorable action on an application. In particular, less-than-satisfactory ratings for the risk management or financial condition component at the holding company or less-than-satisfactory ratings for the management or capital component at the subsidiary bank have proven to be obstacles to favorable action.

Expansionary applications or notices by organizations in satisfactory financial condition can potentially raise issues when the target organization is in less-than-satisfactory financial condition. If the applicant organization's due diligence has identified significant financial, managerial or compliance weaknesses in the target organization, the application or notice should discuss the steps that the applicant will take to correct these weaknesses. The applicant should be able to demonstrate that it has the managerial and financial resources necessary to minimize any potential negative effects of the transaction.

The Letter notes that acquisitions should not be funded by short-term debt (i.e., less than three years). An applicant must be able to demonstrate that it can service debt without relying on sustained high levels of dividends or other income from its subsidiary depository institutions. An applicant should also be able to service acquisition debt without relying on dividends or other income from a target that is in less-than-satisfactory condition. System staff also will consider the impact of financial obligations related to other instruments (e.g., trust preferred securities) and, in certain circumstances, personal debt incurred by applicant's principals.

Finally, capital levels or structures that do not adequately support the organization, are not commensurate with its risk profile, and, in the case of bank holding companies that are subject to the Board's capital adequacy guidelines, have a capital composition in which voting common equity is not

Fed Notes, *Continued on page18*

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.

▷ Main Street Bancshares, Inc., Benton, Ill., authorized to become a bank holding company by acquiring Grand Rivers Community Bank, Grand Chain, Ill.

▷ Stearns Financial Services, Inc. ESOP, Saint Cloud, Minn., authorized to increase its ownership of Stearns Financial Services, Inc., Saint Cloud, and thereby increase its control of Stearns Bank N.A.; Stearns Bank of Upsala, N.A., Upsala, Minn.; and Stearns Bank of Holdingford, N.A., Holdingford, Minn.

▷ Stephenson National Bancorp, Inc., Marinette, Wis., authorized to merge with PWB Bancshares, Inc., Wausaukee, Wis., and thereby acquire Bank North, Wausaukee.

▷ Notice filed by Fred Otten, Norfolk, Neb., to acquire First National Agency, Inc., parent of First Nebraska Bank of Wayne, both in Wayne, Neb.

▷ Minnesota Community Bancshares, Inc., Hartland, Minn., authorized to become a bank holding company by acquiring Hartland Bancshares, Inc., Hartland, and its subsidiary, Farmers State Bank of Hartland.

▷ Cornerstone Bank, York, Neb., authorized to acquire a branch from Bank of Marquette, Neb.

▷ First Interstate BancSystem, Billings, Mont., filed to acquire Mountain West Financial Corp., Helena, Mont., and thereby acquire Mountain West Bank, N.A., Helena.

▷ Notice filed by Greater Chicago Financial Corporation, Chicago, to acquire PNA Bank, Chicago.

▷ Minier Financial, Inc., ESOP with 401(k) Provisions, Minier, Ill., filed to increase its ownership of Minier Financial, Inc., to 51 percent from 37 percent and thereby increase its ownership of First Farmers State Bank, Minier.

▷ WoodTrust Bank, N. A., Wisconsin Rapids, Wis., filed to become a member of the Federal Reserve System.

▷ Otten Holdings, LLC, Norfolk, Neb., authorized to become a bank holding company by acquiring shares of FEO Investments, Inc., Norfolk, and its subsidiary, Elkhorn Valley Bank & Trust, and thereby engage in general insurance and community development activities.

▷ Hinsdale Bank & Trust Company, Hinsdale, Ill., authorized to purchase the Stone Park branch of Urban Partnership Bank, Chicago.

▷ WoodTrust Bank, National Association, Wisconsin Rapids, Wis., approved to retain membership in the Federal Reserve System on conversion to a state-chartered institution.

▷ Citizens Community Bancorp, Inc., Eau Claire, Wis., authorized to become a bank holding company by acquiring Citizens Community Federal N.A., Altoona, Wis.

▷ Logansport Financial Corporation, Logansport, Ind., filed to become a bank holding company following the conversion of its subsidiary bank, Logansport Savings Bank, FSB, to an Indiana state chartered bank from a federally chartered savings bank.

▷ Notice filed by The Robert C. Asmus Equity Interests Trust and Steven R. Bloch, both of Omaha, Neb., to acquire Enterprise Holding Company, parent of Enterprise Bank, both in Omaha.

▷ Security Financial Services Corp., Durand, Wis., authorized to merge with Bloomer Bancshares, Inc., Bloomer, Wis., and acquire Peoples State Bank of Bloomer; and for Security Financial Bank, Durand, to merge with Peoples State Bank of Bloomer.

▷ Town Bank, Hartland, Wis., filed to purchase a branch of THE National Bank, Moline, Ill.

▷ Notice filed by Chemical Financial Corp., Midland, Mich., to acquire Northwestern Bancorp, Inc., Traverse City, Mich., and acquire Northwestern Bank, Traverse City and thereby operate a savings association. In connection with this application, Chemical Bank, Midland, will merge with Northwestern Bank, Traverse City, and thereby establish 25 branches.

▷ State Bank of the Lakes, Antioch, Ill., filed to purchase two branches of Town Bank, Hartland, Wis.

▷ Town Bank, Hartland, Wis., filed to purchase 11 branches of Talmer Bank and Trust, Troy, Mich.

▷ Notice filed by Andrew Sproule Love, Jr., St. Louis, Mo., to gain control of Midland States Bancorp, Inc., Effingham, Ill., the parent company of Midland States Bank, Effingham.

▷ Providence Financial Corporation, South Holland, Ill., authorized to become a bank holding company by acquiring Providence Bank, LLC, South Holland.

▷ Sundance State Bank Profit Sharing and ESOP and Trust, Sundance, Wyo., authorized to increase its ownership interest in Sundance Bankshares, Inc., Sundance, to 32.07 percent from 26.73 percent. Sundance Bankshares, Inc., is parent to Sundance State Bank.

▷ North Shore Community Bank & Trust Company, Wilmette, Ill., authorized to purchase certain assets and assume certain liabilities of Northbrook Bank and Trust Company, Northbrook, Ill.

▷ American State Bank and Trust Company, Great Bend, Kan., filed to merge with First National Bank of Holcomb, Kan.

▷ Mercantile Bank Corp, Grand Rapids, Mich., authorized to acquire Firstbank Corporation, Alma, Mich., and thereby acquire Firstbank, Mount Pleasant, Mich., and Keystone Community Bank, Kalamazoo, Mich. It also elected to become a financial holding company.

▷ The First National Bank of Wamego, Kan., will retain membership in the Federal Reserve System upon conversion to a state charter from a national charter.

▷ First American Bank Corporation, Elk Grove Village, Ill., to acquire Bank of Coral Gables, Fla.

▷ Elizabeth L. Celio, Oak Park, Ill., filed to acquire 10 percent or more of First Mid-Illinois Bancshares, Inc., Mattoon, Ill. First Mid-Illinois Bancshares, Inc., controls First Mid-Illinois Bank & Trust, N.A., Mattoon.

▷ Notice filed by Ericka Lynn Kotab and David William Kotab, both of Wagner, S.D., to acquire shares of Commercial Holding Company, Wagner, South Dakota, and join the Frei Family Shareholder group which owns 25 percent or more of Commercial Holding Company.

▷ Farmers State Bancshares II, Inc., Spencer, Neb., filed to become a bank holding company through the acquisition of Spencer State Bank, Spencer.

▷ The First National Bank of Wamego, Kan., filed to retain its membership in the Federal Reserve System following its conversion to a state charter from a national charter.

▷ Platte Valley Financial Service Companies, Inc., Scottsbluff, Neb., filed to acquire Mountain Valley Bancshares, Inc., and thereby acquire Mountain Valley Bank, both of Walden, Colo. Mountain Valley Bancshares, Inc., Walden, will merge with and into Platte Valley Financial Service Companies, Inc.

▷ Crazy Woman Creek Bancorp, Buffalo, Wyo., authorized to become a bank holding company upon the conversion of its sub-

Transaction Report,
Continued on page18

NORTH DAKOTA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
1.STATE BANKSHARES, INC., FARGO	2,946,169	
BELL STATE BANK & TRUST, FARGO		2,905,587
2.WATFORD CITY BNCSHRS., INC., WATFORD CITY	1,634,378	
FIRST INTERNATIONAL BANK AND TRUST, WATFORD CITY		1,632,682
3.ALERUS FINANCIAL CORP., GRAND FORKS	1,380,733	
ALERUS FINANCIAL, N.A., GRAND FORKS		1,374,757
4.AMERICAN BANCOR, LTD., DICKINSON	1,192,869	
AMERICAN BANK CENTER, DICKINSON		1,129,209
NORTH COUNTRY BANK, MCCLUSKY		62,637
5.STARION BANCORPORATION, BISMARCK	961,635	
STARION FINANCIAL, BISMARCK		961,215
6.CHOICE FINANCIAL HOLDINGS, INC., GRAFTON	870,494	
CHOICE FINANCIAL GROUP, GRAFTON		653,119
GREAT PLAINS NATIONAL BANK, BELFIELD		215,735
7.WESTBRAND, INC., MINOT	850,712	
FIRST WESTERN BANK AND TRUST, MINOT		850,322
8.BNCCORP, INC., BISMARCK	843,123	
BNC NATIONAL BANK, GLENDALE, AZ		841,451
9.DAKOTA COMMUNITY BANSHARES, INC., HEBRON	705,560	
DAKOTA COMMUNITY BANK & TRUST, N.A., HEBRON		705,470
10.WESTERN STATE AGENCY, INC., DEVILS LAKE	692,580	
WESTERN STATE BANK, DEVILS LAKE		688,805
11.AMER. STATE BANK HOLDING CO., INC., WILLISTON	581,471	
AMERICAN STATE BANK & TRUST COMPANY OF WILLISTON		581,347
12.SECURITY STATE BANK HOLDING CO., FARGO	492,449	
BANK FORWARD, HANNAFORD		490,836
13.LAKESIDE BANK HOLDING CO., NEW TOWN	480,253	
LAKESIDE STATE BANK, NEW TOWN		346,258
MCKENZIE COUNTY BANK, WATFORD CITY		133,805
14.JORGENSON WILLISTON HOLDING CO., KENMARE	433,173	
FIRST NATIONAL BANK & TRUST COMPANY OF WILLISTON		433,173
15.BLACKRIDGE FINANCIAL, INC., FARGO	379,519	
BLACKRIDGE BANK, FARGO		375,683
16.FIRST FINANCIAL CORP., ARTHUR	319,047	
FIRST STATE BANK OF NORTH DAKOTA, ARTHUR		319,047
17.LEEDS HOLDING CO., LEEDS	282,254	
UNITED COMMUNITY BANK OF NORTH DAKOTA, LEEDS		282,254
18.RAMSEY FINANCIAL CORP., DEVILS LAKE	259,684	
RAMSEY NATIONAL BANK, DEVILS LAKE		259,591
19.DAKOTA WESTERN BANKSHARES, INC., BOWMAN	251,279	
DAKOTA WESTERN BANK, BOWMAN		251,279
20.FIRST HOLDING CO. OF CAVALIER, INC., CAVALIER	236,938	
UNITED VALLEY BANK, CAVALIER		236,197
21.CORNERSTONE HOLDING COMPANY, INC., FARGO	236,329	
CORNERSTONE BANK, FARGO		237,168
22.NORTH STAR HOLDING CO., INC., JAMESTOWN	228,687	
UNISON BANK, JAMESTOWN		228,687
23.FIRST HOLDING COMPANY OF PARK RIVER, INC.	218,819	
FIRST FINANCIAL BANK, ANETA		43,061
FIRST UNITED BANK, PARK RIVER		176,949
24.KIRKWOOD BANCORPORATION CO., BISMARCK	211,569	
KIRKWOOD BANK AND TRUST CO., BISMARCK		208,575
25.MCLEAN BANK HOLDING CO., GARRISON	205,969	
BANK OF TURTLE LAKE		45,994
FARMERS SECURITY BANK, WASHBURN		48,596
GARRISON STATE BANK AND TRUST, GARRISON		110,562
26.H.O.M.E., INC., FARGO	192,166	
NORTHLAND FINANCIAL, STEELE		189,977
27.JORGENSON HOLDING CO., KENMARE	179,014	
CITIZENS STATE BANK AT MOHALL		64,161
STATE BANK & TRUST OF KENMARE		114,853
28.OLIVER BANCORPORATION, INC., CENTER	175,766	
SECURITY FIRST BANK OF NORTH DAKOTA, NEW SALEM		175,766
29.FULL SERVICE INSURANCE AGENCY, INC., BUXTON	171,891	
FIRST STATE BANK, BUXTON		171,750
30.VISION BANK HOLDINGS, INC., FARGO	147,669	
VISIONBANK, FARGO		146,037
31.FIRST BOTTINEAU, INC., BOTTINEAU	146,150	
FIRST NATIONAL BANK AND TRUST COMPANY OF BOTTINEAU		146,119
32.DRAYTON BANCOR, INC., DRAYTON	143,300	
KODABANK, DRAYTON		141,666
33.HUNTER HOLDING CO., HUNTER	141,096	
DAKOTA HERITAGE BANK OF NORTH DAKOTA, HUNTER		139,522
34.TIOGA BANK HOLDING CO., TIOGA	139,465	
BANK OF TIOGA		139,465
35.UNION HOLDING CO., HALLIDAY	132,946	
UNION BANK, BEULAH		132,946
36.CITIZENS BANK HOLDING CO., FINLEY	129,089	
CITIZENS STATE BANK OF FINLEY		129,089
37.MUNICH BANCSHARES, INC., MUNICH	128,255	
HORIZON FINANCIAL BANK, MUNICH		126,945
38.GOOSE RIVER HOLDING CO., MAYVILLE	117,208	
GOOSE RIVER BANK, MAYVILLE		117,340
39.SARGENT BANKSHARES, INC., FORMAN	113,907	
SARGENT COUNTY BANK, FORMAN		113,907
40.HAZEN BANCORPORATION, INC., HAZEN	113,843	
UNION STATE BANK OF HAZEN		112,431
41.PEMBINA COUNTY BANKSHARES, LTD., CAVALIER	113,172	
CITIZENS STATE BANK – MIDWEST, CAVALIER		113,172
42.TOLNA BANCORP, INC., TOLNA	101,719	
FARMERS & MERCHANTS BANK OF NORTH DAKOTA, TOLNA		59,024
MCVILLE STATE BANK , MCVILLE		42,695
43.BEALL BANCSHARES INC., VELVA	95,568	
PEOPLES STATE BANK OF VELVA		87,985
44.MCINTOSH CTY. BANK HOLDING CO., INC., ASHLEY	95,105	
MCINTOSH COUNTY BANK, ASHLEY		89,079
COMMERCIAL BANK OF MOTT ESOP, MOTT		94,185
COMMERCIAL BANK OF MOTT		94,185
45.F & M BANCSHARES, INC., LANGDON	85,938	
FARMERS AND MERCHANTS STATE BANK, LANGDON		85,879
46.HANISCH BANKSHARES, LTD., CROSBY	79,861	
FARMERS STATE BANK OF CROSBY		79,861
47.UNION BANCSHARES, INC., FARGO	79,746	
UNION STATE BANK OF FARGO		79,746
48.FIRST HARVEY BANCORPORATION, INC., HARVEY	77,728	
FIRST STATE BANK OF HARVEY		77,478
49.LIBERTY BANCORPORATION, INC., POWERS LAKE	77,117	
LIBERTY STATE BANK, POWERS LAKE		77,117
50.FNB BANKSHARES, INC., MILNOR	75,451	
FIRST NATIONAL BANK, MILNOR		75,451
51.PEOPLES STATE HOLDING CO., WESTHOPE	71,606	
PEOPLES STATE BANK, WESTHOPE		71,502
52.WISHEK BANCORPORATION, INC., WISHEK	70,099	
SECURITY STATE BANK, WISHEK		69,591
53.NAPOLEON BANCORPORATION, INC., NAPOLEON	69,138	
STOCK GROWERS BANK, NAPOLEON		69,138
54.LINCOLN HOLDING CO., HANKINSON	68,192	
LINCOLN STATE BANK, HANKINSON		68,192
55.JBS, INC., KULM	62,997	
HEARTLAND STATE BANK, EDGELEY		62,997
56.STRASBURG BANSHARES, INC., STRASBURG	61,564	
STRASBURG STATE BANK, STRASBURG		61,564
57.STATE BANK OF BOTTINEAU HOLDING CO.	60,372	
STATE BANK OF BOTTINEAU		59,632
58.CANDO HOLDING COMPANY, INC., CANDO	55,900	
FIRST STATE BANK OF CANDO		55,376
59.FIRST & FARMERS BANK HOLDING CO., PORTLAND	55,753	
FIRST AND FARMERS BANK, PORTLAND		55,753
60.LAKOTA BANK HOLDING COMPANY, INC., LAKOTA	53,270	
STATE BANK OF LAKOTA		53,251
61.FIRST BANK HOLDING COMPANY, INC., HARVEY	51,009	
NATIONAL BANK OF HARVEY		51,009
62.TRINITY INVESTMENTS, INC., GLEN ULLIN	47,275	
BANK OF GLEN ULLIN		47,265
63.CITIZENS STATE BANCSHARES, INC., LANKIN	46,134	
CITIZENS STATE BANK OF LANKIN		46,134

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of Dec. 31, 2013. *Dollar amounts in thousands*

NORTH DAKOTA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
64.GRANT COUNTY BANCORPORATION, INC., CARSON	**33,882**	
GRANT COUNTY STATE BANK, CARSON		33,653
65.HSB FINANCIAL CORP., HARWOOD	**33,661**	
HARWOOD STATE BANK, HARWOOD		33,661
66.QUALITY BANKSHARES, INC., PAGE	**27,459**	
QUALITY BANK, FINGAL		27,441
67.DAKOTAH BANKSHARES, INC., FAIRMOUNT	**24,749**	
PEOPLES STATE BANK, FAIRMOUNT		24,749
68.HATTON BANCSHARES, INC., FARGO	**23,753**	
FARMERS AND MERCHANTS NATIONAL BANK OF HATTON		23,587
69.WALL STREET HOLDING CO., HAMILTON	**22,337**	
BANK OF HAMILTON		22,311

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of Dec. 31, 2013. *Dollar amounts in thousands*

SOUTH DAKOTA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
1.NATIONAL AMERICAS HOLDINGS, SIOUX FALLS	**9,200,924**	
GREAT WESTERN BANK, SIOUX FALLS		9,269,540
2.UNITED NATIONAL CORP., SIOUX FALLS	**2,344,689**	
FIRST PREMIER BANK, SIOUX FALLS		1,375,260
3.DACOTAH BANKS, INC., ABERDEEN	**2,111,079**	
DACOTAH BANK, ABERDEEN		2,106,311
4.FISHBACK FINANCIAL CORP., BROOKINGS	**1,853,823**	
FIRST BANK & TRUST, BROOKINGS		925,796
FIRST BANK & TRUST OF MILBANK		161,646
FIRST BANK & TRUST, N.A., PIPESTONE, MN		197,472
FIRST BANK & TRUST, SIOUX FALLS		580,156
5.SECURITY NATIONAL CORP., DAKOTA DUNES	**1,218,571**	
NORTHWESTERN BANK, ORANGE CITY, IA		200,911
SECURITY NATIONAL BANK OF SOUTH DAKOTA, DAKOTA DUNES		174,264
SECURITY NATIONAL BANK OF SIOUX CITY, IA		834,287
6.MINNEHAHA BANSHARES, INC., SIOUX FALLS	**1,052,372**	
FIRST NATIONAL BANK IN SIOUX FALLS		1,045,519
7.FIRST DAKOTA FINANCIAL CORP., YANKTON	**1,014,026**	
FIRST DAKOTA NATIONAL BANK, YANKTON		1,011,858
8.STOCKMENS FINANCIAL CORP., RAPID CITY	**880,430**	
FIRST BANK, LINCOLN, NE		879,159
9.SOUTH DAKOTA BANCSHARES, INC., PIERRE	**852,424**	
BANKWEST, INC., PIERRE		850,750
10.HOPKINS FINANCIAL CORP., MITCHELL	**750,421**	
CORTRUST BANK N.A., MITCHELL		746,137
11.CAPITOL BANCORPORATION, INC., BRITTON	**746,509**	
FIRST NATIONAL BANK, FORT PIERRE		722,823
12.BELLE FOURCHE BANCSHARES, INC., SPEARFISH	**584,130**	
PIONEER BANK & TRUST, BELLE FOURCHE		584,159
13.LEACKCO BANK HOLDING CO., INC., WOLSEY	**581,422**	
AMERICAN BANK & TRUST, WESSINGTON SPRINGS		417,531
AMERICAN STATE BANK OF PIERRE		163,541
14.FIDELITY CORP., BURKE	**338,282**	
FIRST FIDELITY BANK, BURKE		338,267
15.FIRST SLEEPY EYE BANCORP. INC., SIOUX FALLS	**314,814**	
CAPITAL BANK, SAINT PAUL, MN		35,606
FIRST SECURITY BANK - SLEEPY EYE, MN		208,393
FIRST SECURITY BANK – CANBY, MN		66,963
16.BIG SIOUX FINANCIAL, INC., ESTELLINE	**253,288**	
RELIABANK DAKOTA, ESTELLINE		252,497
17.PHILIP BANCORPORATION, INC., PHILIP	**225,145**	
FIRST NATIONAL BANK IN PHILIP		224,570
18.FULDA BANCORPORATION INC., BRITTON	**207,626**	
FIRST NATIONAL BANK, SLAYTON, MN		201,035
19.H & W HOLDING CO., FREEMAN	**150,584**	
MERCHANTS STATE BANK, FREEMAN		150,551
20.PARKSTON INVESTMENT CO., PARKSTON	**146,837**	
FARMERS STATE BANK, PARKSTON		145,431
21.HOWARD CTY. LAND AND CATTLE CO., RAPID CITY	**145,100**	
CITIZENS BANK & TRUST CO., SAINT PAUL, NE		142,824
22.BEULAH BANCORPORATION, INC., SIOUX FALLS	**144,323**	
FIRST SECURITY BANK – WEST, BEULAH, ND		62,323
VALLEY BANK AND TRUST, MAPLETON, IA		80,353
23.BHCB HOLDING CO., RAPID CITY	**143,079**	
BLACK HILLS COMMUNITY BANK, N.A., RAPID CITY		143,079
24.M & H FINANCIAL SERVICES, INC., MILLER	**141,191**	
QUOIN FINANCIAL BANK, MILLER		140,775
25.COMMERCIAL HOLDING CO., WAGNER	**139,406**	
COMMERCIAL ST BK OF WAGNER		138,665
26.MIDWEST BANCSHARES, INC., TYNDALL	**131,179**	
SECURITY STATE BANK, TYNDALL		130,929
27.ELKTON HOLDING CO., ELKTON	**121,395**	
BANKSTAR FINANCIAL, ELKTON		72,041
FIRST NATIONAL BANK OF VOLGA		49,354
28.FIRST STATE BANKING CORP., ALCESTER	**114,919**	
STATE BANK OF ALCESTER		114,671
29.LEWIS BANSHARES, INC., SIOUX FALLS	**106,166**	
FIRST STATE BANK, ARMOUR		105,865
30.MERCHANTS HOLDING CO., SIOUX FALLS	**102,819**	
MERCHANTS BANK, RUGBY, ND		101,017
31.GREAT PLAINS BANK CORP., EUREKA	**102,150**	
GREAT PLAINS BANK, EUREKA		101,809
32.NORTHEAST BANCORP, INC., BRANDON	**98,286**	
FIRST STATE BANK, WILMOT		41,690
PEOPLES STATE BANK, SUMMIT		56,488
33.PAGE HOLDING CO., PLANKINTON	**92,508**	
FARMERS AND MERCHANTS STATE BANK, PLANKINTON		92,548
34.ROSCOE COMMUNITY BANKSHARES, INC., ROSCOE	**91,665**	
FIRST STATE BANK OF ROSCOE		91,664
35.WESSINGTON BANKSHARES, INC., WESSINGTON	**79,000**	
HEARTLAND STATE BANK, REDFIELD		78,959
36.LINCOLN INVESTMENT CO., LENNOX	**72,364**	
VALLEY EXCHANGE BANK, LENNOX		71,207
37.DRAPER HOLDING COMPANY, INC., FORT PIERRE	**70,015**	
DAKOTA PRAIRIE BANK, FORT PIERRE		70,041
38.UPTOWN BANCORPORATION, INC., BRITTON	**65,303**	
FIRST NATIONAL BANK, DAVENPORT, IOWA		64,207
39.DCNB HOLDING CO., CLEAR LAKE	**60,704**	
DNB NATIONAL BANK, CLEAR LAKE		60,990
40.RCN HOLDING CO., SISSETON	**57,480**	
ROBERTS COUNTY NATIONAL BANK OF SISSETON		57,380
41.IPSWICH COMMUNITY BANCSHARES, INC., IPSWICH	**57,209**	
IPSWICH STATE BANK, IPSWICH		57,209
42.FIRST BANK SHARES CORP., WARNER	**54,083**	
FIRST STATE BANK OF WARNER		54,080

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of Dec. 31, 2013. *Dollar amounts in thousands*

SOUTH DAKOTA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
43.ADINO COMPANY, ONIDA	54,083	
SUNRISE BANK DAKOTA, ONIDA		54,080
44.LINCOLN HOLDING CO., CANTON	48,104	
FARMERS STATE BANK OF CANTON		48,104
45.BELLINGHAM CORP., SIOUX FALLS	41,734	
STATE BK OF BELLINGHAM		41,142
46.EMERY SECURITY BANCORPORATION, INC., EMERY	40,246	
SECURITY STATE BANK, EMERY		40,240
47.BLUNT BANK HOLDING CO., BLUNT	38,229	
DAKOTA STATE BANK OF BLUNT		38,236
48.MENNO HOLDING C O., MENNO	37,108	
MENNO STATE BANK, MENNO		37,107
49.WESTERN DAKOTA HOLDING CO., TIMBER LAKE	34,289	
WESTERN DAKOTA BANK, TIMBER LAKE		34,289
50.BRYANT BANCSHARES, INC., BRYANT	30,773	
BRYANT STATE BANK, BRYANT		29,284
51.SCOTLAND HOLDING CO., SCOTLAND	29,685	
FARMERS AND MERCHANTS STATE BANK, SCOTLAND		29,685
52.CONSOLIDATED HOLDING CO., OLDHAM	28,993	
AMERICAN STATE BANK, OLDHAM		28,933
53.RANDALL BANCSHARES, INC., LAKE ANDES	22,782	
ANDES STATE BANK, LAKE ANDES		22,783
54.H2H BANCSHARES, INC., HOSMER	19,735	
FARMERS STATE BANK, HOSMER		19,735

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of Dec. 31, 2013. *Dollar amounts in thousands*

Regulatory Environment,
Continued from page 11

shops and they have had compliance exams with findings. If you talk to examiners, they will admit that their expectations are up and they have notched them up because of CFPB oversight."

Grandstrand said it is a challenge for attorneys and compliance officers to give advice on regulatory law in this environment. "You cannot advise the old fashioned way where you read a regulation and inform the bank of its meaning," she said. "Guidance and speeches matter as well. You have to look at what's legal and fair and whether there are negative consequences to consumers. That is the lens through which you have to view regulation now. It is not enough to fit the technical words of the regulation." ■

Transaction Report,
Continued from page15

sidiary, Buffalo Federal Savings Bank, Buffalo, to a commercial bank from a federal savings bank.

▷ Peoples Bankshares, Inc., Mora, Minn., authorized to merge with Douglas County Bancshares, Inc., Alexandria, Minn., and thereby acquire Neighborhood National Bank, Alexandria.

▷ Stockman Financial Corporation, Miles City, Mont., authorized to acquire Big Sky Holding Company, Stanford, Mont., and thereby acquire Basin State Bank, Stanford

▷ The Yellowstone Bank, Laurel, Mont., filed to purchase the Sidney, Mont., office of 1st Bank, Sidney.

▷ Buffalo Federal Savings Bank, Buffalo, Wyo., filed to retain its membership in the Federal Reserve System following its conversion to a state charter from a national charter.

▷ Citizens National Corporation, Wisner, Neb., filed to acquire up to an additional 1.49 percent for a total of 35.93 percent of Republic Corporation, parent of United Republic Bank, both in Omaha, Neb.

▷ Alerus Financial Corporation, Grand Forks, N.D. authorized to acquire Private Bancorporation, Inc., Minneapolis, and thereby indirectly acquire Private Bank Minnesota, Minneapolis.

▷ First Clover Leaf Financial Corp, Edwardsville, Ill., authorized to become a bank holding company upon the conversion of its subsidiary, First Clover Leaf Bank, FSB, Edwardsville, to a national bank from a federal savings bank.

▷ Klein Financial, Inc., Chaska, Minn., authorized to acquire Prior Lake State Bank, Prior Lake, Minn.

▷ First Midwest Bank, Itasca, Ill., filed to purchase 12 branches of Banco Popular North America, New York, N.Y.

▷ ANB Bank, Denver, Colo., filed to merge with Capital West Bank, Laramie, Wyo.

▷ Notice filed by Mary Lou Spanier, Sublette, Kan., to acquire Santa Fe Trail Banc Shares, Inc., parent of Centera Bank, both in Sublette.

Fed Notes,
Continued from page14

the predominant element, raise significant issues. At a minimum, such holding companies and their subsidiary banks must be at least well capitalized on a pro forma basis.

The Letter emphasizes that financial institutions and individuals are expected to have resolved any outstanding substantive supervisory issues before filing with the System. The Reserve Bank encourages filers with proposals that present new or unusual issues to use the pre-filing process outlined in SR letter 12-12/CA letter 12-11, "Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Nonbank Acquisitions and Other Proposals" to facilitate the identification of potential problems before a final application or notice is submitted.

The BHCA: A UNIQUE VALUE
for bank owners, officers and directors

If you are a bank owner, the Bank Holding Company Association is the *right* organization for you. Whether your ownership consists of a few shares or 100 percent, you will find BHCA membership delivers unique value to bank owners like you.

Seminars

Members receive discounted registration fees on BHCA's annual Spring and Fall Seminars.
The BHCA seminars consistently deliver informative presentations from industry experts, consultants and analysts. They educate as well as entertain. Break-out sessions give seminar participants the opportunity to go in-depth on very specific topics to bank owners, such as succession planning, tax issues, merger and acquisition preparation, legal/accounting issues and more.

Networking

Get access to other bank owners.
One of the most valuable features of our twice-a-year seminars is the opportunity to visit with other bank owners between scheduled presentations.
It has been said that more merger and acquisition deals have been initiated at BHCA seminars than almost anywhere else.
No other group brings together so many bank owners from across the Upper Midwest.

Insight

Appreciate our regional focus.
With holding company members from Minnesota, Wisconsin, North Dakota, South Dakota, Iowa and Illinois, the BHCA brings together bank owners, directors and officers with common regional interests, but if you don't want to talk to a competitor, you can always find similarly-situated members from outside your holding company's trade area.

Access

Gain access to regulators.
BHCA frequently hosts events featuring representatives from the Federal Reserve, Federal Deposit Insurance Corp., Office of the Comptroller of the Currency, and state regulatory agencies.
Forums permit anonymous questions, as well as opportunities for you to visit directly with regulators.

Gain access to experts.
The BHCA features a healthy associate membership sector, providing bank owners with access to attorneys, accountants, investment professionals, consultants and others who can address virtually any need a bank owner may have.

Read what some long-time BHCA members have to say:

Serious, useful education…

"We chose to join BHCA in about 1990, shortly after we formed a new holding company to purchase a divested First Bank System bank in 1987. We were new at the process and thought that joining BHCA would be a great educational experience. Since that time several of us have managed to attend nearly every seminar.

Ideas we implemented from the seminars include mandatory retirement of both bank and holding company directors, general director responsibilities, audit and compliance committee ideas, and excellent presentations by economists over the years to assist us in funds management. And, of course, there is always the exchange of ideas with fellow bankers." *- Gary Paulson, First Holding Company, Park River, N.D.*

Bottom-line Impact…

"At the October 2008 seminar, one of the breakout speakers showed that Municipals were under-valued relative to Treasuries. Realizing the Fed would be lowering rates to zero sooner or later, we moved ALL our Fed Funds into Municipals — not longer than five years, and Midwest only. That locked in $70,000 of income per year. For a $40 million bank, that has made a difference." *- Douglas Farmer, Golden Oak Bancshares, Inc., Holmen, Wis.*

A great value…

"Our holding company is a charter member of the BHCA. The association provides excellent value as evidenced by the networking opportunities, top-notch speakers, and the wide range of educational opportunities available through the concurrent breakout sessions. In this day of aggressive cost-cutting, our BHCA membership is a certain renewal!" *- Pat Gates, Security Financial Services, Inc., Hibbing, Minn.*

Membership:

Annual dues to the Bank Holding Company Association range from $400 to $1,000 per year, depending on the size of your organization.

For more information, please call us at 952-835-2248 or 1-800-813-4754

www.theBHCA.org

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