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Bank Owner

The magazine of the Bank Holding Company Association





Facetime

Spring Seminar brings together industry luminaries



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Bank Owner

Summer 2015

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 professionals.

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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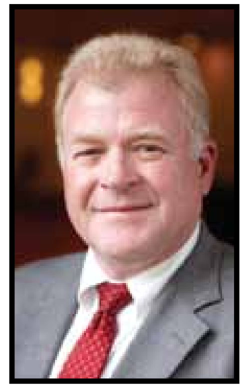
Let's keep the Postal Service out of the banking business



By Erick Gandrud
Eagle Investment Company, Inc.
Glenwood, Minn.

The Office of the Inspector General for the U.S. Postal Service again has suggested the Postal Service get into the banking business. They floated this idea in early 2014 and it went over like a lead balloon. Now they have issued a redrafted report, but the concept — albeit scaled back from a year ago — is still off base. The Postal Service should stay out of the banking business.

The Postal Service has tallied billions of dollars in losses, despite huge taxpayer funded subsidies and special privileges. The Office of the Inspector General, or OIG, sees banking as a way to make up some of those losses. But bankers knows it's not all that easy.

The Postal Service is already in the financial services business, as it is the largest single provider of paper money orders in the United States. It sold $21 billion worth of money orders in 2014, bringing in $165 million in revenue. It also offers prepaid cards, international money transfers and does some check cashing. It would like to beef up all these services, believing it could raise more than a $1 billion in revenue.

The U.S. Postal Service looks at the government mail service agencies around the world with some envy. The OIG's report notes that in industrialized countries, financial services contribute on average 14.5 percent of their revenue. That percentage at the U.S. Postal Service would equal nearly $10 billion. The report states: "With the right focus and execution, there should be no reason why the Postal Service could not achieve normal financial returns or become the world's leading post in providing financial services."

The OIG notes that the Postal Service has offices in virtually every neighborhood in the country. Also, it says, many industries are scaling back their brick and mortar presence, opting for electronic delivery of services that traditionally have been delivered in person or over the counter.

Of course, what they don't say is that those ubiquitous post offices were partially funded by taxpayers like you and me. The idea that a government agency would compete against a well-established private industry is appalling. If the Postal Service undercuts our service and banks lose a lot of business, there is going to be a lot less tax revenue for Uncle Sam to collect, even if the Post Office does make a little more money. I'm guessing it would be a net loss for the country.

I like the Postal Service as much as anyone. I really like it when the mail arrives on time. So they should focus on perfecting that service. The Postal Service has enough operational, management and financial challenges that it really should not be even thinking about getting into entirely new lines of business in which it has limited experience. In addition to the regulatory issues, there are safety and soundness issues. One of the suggestions in the OIG's report is the Postal Services could make small loans, possibly even provide capital. It further suggests the possibility of establishing a "full-fledged post bank." But these are risky endeavors, even for experienced financial services professionals. If someone wanted to start a bank and they described their professional experience as being similar to those folks who run the post office — losses and all — there is no way regulators would approve the charter.

The American Bankers Association, the Independent Community Bankers of America and other industry advocates have been vocal in opposition to the very notion of the Postal Service expanding its financial services. But we shouldn't take it for granted that this idea is going to go away. There are powerful people who like the idea. Sen. Elizabeth Warren, for example, is a big advocate for the Postal Service on this one. You never know what's going to happen so it is important that we speak up on this issue.

The next time you communicate with your Representative or Senator, let them know the Postal Service is on the wrong track. Encourage them to limit the Postal Service to its core mission and leave financial services to the banking industry.

Thank you for making Spring Seminar a success…thoughts on strategic planning

Many people deserve to be thanked for the success of the 2015 Spring Seminar. It was a big success with more than 230 people in attendance, expanded educational sessions, and outstanding presenters.

I want to thank our 27 sponsoring companies and organizations. Because of the support of our sponsors, we are able to provide a quality seminar with a modest registration fee. If you've ever attended one of the national banking seminars or other regional meetings, you know that our registration fee is very reasonable. That's entirely due to the generosity of our sponsors.

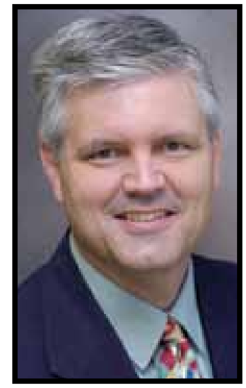
I also want to thank our presenters. With the expanded educational format and the M&A panel that opened our Tuesday session, we had a record number of presenters – 19! That's a lot of expertise at one seminar. Working with each one was a pleasure. I think we all benefit when we can include the perspective of so many different industry professionals with a broad variety of experience and knowledge.

And most importantly, I want to thank everyone who attended the seminar. I know there are a lot of industry meetings. You have many opportunities to participate in conferences, seminars, conventions, expos, and other industry gatherings. Typically they are all well-done and so the fact that you would single out the BHCA seminar as worthy of your time and resources is a very high compliment. Thank you. I hope that you will continue attending our seminars; please consider bringing your board members, colleagues at the bank, and even friends from other banks and holding companies.

One of the exciting developments at the seminar was the Monday afternoon session devoted to issues important to subchapter S banks and holding companies. The session was co-sponsored by the Subchapter S Bank Association, which is based in San Antonio, Texas. This is the first time we have scheduled programming on Monday afternoon; based on the response, I expect we will make Monday afternoon programming a regular feature of the seminar. We had well over 100 people listening to attorneys Patrick Kennedy and Dub Sutherland, banker Randy Rouse and consultant Kevin Powers who all presented on sub S issues.

With about 15 percent of our seminar attendees filling out evaluation forms, the seminar averaged an overall rating of 4.5 on a scale of one to five, with five being the best. Attendees in particular indicated they liked the Tuesday morning acquisitions panel, Monday's dinner speaker Edmond Seifried and Tuesday's closing speaker Paul Kingsman.

If you missed the seminar, I hope you enjoy the coverage we provide in this edition of *Bank Owner*. In addition, you can visit our website at www.theBHCA.org and find the handouts for most of the presentations.



By Tom Bengtson
BHCA Managing Director

Board considering strategic issues

The BHCA Board of Directors, under the direction of President Erick Gandrud, has met twice this year and both meetings have included strategic planning discussions. Our summer meeting scheduled for next month also will have a strategic planning component.

The board is taking a hard look at the numerous issues affecting bank holding companies and the community banking industry. Of particular interest is industry consolidation. As anyone who follows banking knows, the volume of acquisitions and mergers is substantial (about 275 a year), and there are virtually no new banks being formed to make up for the reduced number of remaining institutions. How should the BHCA respond to this industry phenomenon? If the industry were to consolidate into about 4,000 banks across the country from the current total of some 6,000, as many experts predict, what would the implication be for BHCA and its members? These are the kinds of questions our 10-member board has been dealing with.

Other questions the BHCA board is considering: To what extent should our education be directed at ownership issues as opposed to holding company issues? What products or services should we be offering in addition to education? We are a regional association now, with members in six states; to what extent should we develop our footprint to encompass additional states or even the entire country? What is the best way to meet the needs of a very disparate membership, made up of organizations which range in asset size from less than \$50 million to nearly \$10 billion?

Of course, the BHCA is not the only association dealing with these questions. I am very proud of our board for taking these questions on and pushing the envelope with consideration of numerous potential answers. Since the organization was founded in 1981, the BHCA always has offered a unique value proposition. We intend to keep it that way. We are not interested in duplicating products and services that our members already have easy access to through the other fine associations which serve this industry.

Education and networking are the key benefits of BHCA membership and we expect to deliver even more value in those areas as we develop our seminars, webinars, membership publications and other products. Down the line, even considering the effects of industry consolidation, I expect the BHCA to reach even more bank owners and industry professionals.

Thank you very much for your support. Please contact me if you have thoughts about how the BHCA can serve you better. ▯

Spring Seminar coverage provided by Matthew Doffing

Bankers discuss the M&A landscape

Sellers and buyers shouldn't underestimate the significance of staff and culture in any M&A deal, said Ron Seib, CFO at KleinBank, Chaska, Minn. Seib sat on a panel of bank acquirers at the Bank Holding Company Association's Spring Seminar on May 5; the meeting was conducted at the Minneapolis Airport Marriott Hotel in Bloomington, Minn., and attracted some 230 bankers and guests.

"The further I get in my career, the more I realize culture is really important," Seib said. "You can try to fit a square peg into a round whole but it is painful. Before you win the deal or before you close, you need to get in front of the seller's staff. Tell them about yourself, about your story and your vision for the merger. They hold the keys to your customers, for which you just paid a premium."

M&A panel shares ideas and experiences relating to successful M&A transactions. From left are: Moderator Craig Mueller, Oak Ridge Financial, Golden Valley, Minn.; Bob Atwell, Nicolet Bankshares, Green Bay, Wis.; Greg Hilding, Bremer Financial, St. Paul, Minn.; Ron Seib, KleinBank, Chaska, Minn.; and Kurt Weise, Central Bank, Golden Valley, Minn.

Seib's fellow panelists were Kurt Weise, president of Central Bank, Golden Valley, Minn.; Bob Atwell, president and CEO, Nicolet Bankshares, Green Bay, Wis.; and Greg Hilding, Midwest group president at Bremer Financial, St. Paul, Minn. The panel was moderated by Craig Mueller, Oak Ridge Financial, Golden Valley, Minn. The panelists agreed that HR issues were a key component of bank value creation.

Buyers should meet with the target bank's personnel to get a clear idea for the target's key staff, Atwell said. "It isn't always obvious who the talent is when you are looking at an organization from the outside," he said. "If you are not careful you can really overlook people who are the heart and soul of the organization. You also can end up overpaying for people who are way beyond their useful life."

Succession planning is both a cause for a deal and a key component in completing a sale, Mueller said. A succession problem for a seller can be a succession problem for the buyer, particularly in small rural banks. "Buyers also want a strong franchise with the executives and producers who made the franchise valuable," he said. "Buyers want to see these key people locked down. Bids are often subject to employee agreements like 'stay through transaction' agreements as well as non-solicit and non-compete agreements."

As buyers and sellers work to ensure key staff stays after the acquisition, employment contracts "can be a big can of worms," Weise said. The $1.1 billion Central Bank has been a buyer and just recently was sold. It acquired six banks between 2009 and 2014. It was acquired by the $1.7 billion MidWest*One* Financial Group, Iowa City, Iowa, in a deal that closed May 1. "We once had a seller include 11 employment contracts among the conditions to close. That meant the deal didn't happen unless those 11 people signed. That's was a lot of work," Weise said.

Buy, sell or hold

Deciding to sell is a question of viability, said Atwell, whose $1.2 billion Nicolet National Bank purchased the $447 million Mid-Wisconsin Financial Services of Medford, Wis., in April 2013 and the $43 million Bank of Wausau, Wis., in August of 2013. "It isn't so much about size as it is about having a plan to make a difference in your community," he said. "You have to start with the question: From your customers' point of view, is the community better because your bank is there?"

As bankers consider whether their bank should remain independent, or whether they should sell or even buy, they should stay versed on M&A trends, Seib said. Potential sellers also "should try to analyze their bank," he said. "Look at your profitability trends. Look at who could acquire you and who you would be interested in acquiring. That way you're ready should the opportunity arise."

Any deal will need to be a win-win for seller and buyer, Hilding said. The $9.8 billion Bremer Bank acquired Eastwood Bank, Rochester, Minn., in January. "You need to know your worthy attributes and how you deliver value into the market," he said. "Then, if you have dialogue with a buyer, you can explain your value."

Private negotiations versus auctions

The panelists agreed private negotiations are preferred by most buyers and sellers. The best situation for a seller is a competitive negotiation, Atwell said. "The best buys [for sellers] will be more negotiated, there is a lot more to a deal than the price," he said. Mueller added that competitive negotiation drives the highest value generally.

Sellers who have a long tenure owning their bank will find auctions less attractive, Weise said. "If you have employees who have been with you for years and have built the bank, a one-on-one, negotiated sale is definitely the way to go if you have any pride in your staff and what you have built," he said. "I am not saying doing an auction can't work but in my experience a one-on-one negotiation is the best way to go."

Mueller said that Oak Ridge Financial and other investment banking firms will review and provide a fairness opinion on purchase agreements.

After closing

After the deal closes, KleinBank will insert an employee into the target bank to assist in its transition, Seib said. "They act as a shepherd of sorts who answers questions and provides more immediate answers," he said. "Sometime we leave people there even after the initial transition."

Buyers should get in front of the target bank's customers right away after the deal closes, Seib said. "Tell them your story," he said. "If you don't your competitors certainly will."

Little things can help smooth the target bank's customers' transition into the new bank. "Consolidate mailings right away," he said. "When your new customer gets a mailing from two banks for their DDA, their CDs, their loans and so on, it just annoys them. It is well worth the pain to do it."

M&A activity up

The number of FDIC assisted transaction has fallen off and the industry is back to "normal activity," Mueller said.

With just over 300 deals last year (and only a few of those involving government assistance) the M&A arena is as busy today as it was a decade ago when between 250 and 300 deals per year was typical.

Consolidation is occurring, Mueller said. "It is happening for banks under $100 million in assets," he said. The number of banks under $100 million in assets was 1,645 in 2014; that's down from 3,655 in 2004.

In terms of sale prices, buyers are paying more for larger institutions, Mueller said. In 2014, acquired banks with $500 million to $2 billion in assets garnered 1.76 times book value compared to banks with less than $500 million in assets, which attracted 1.25 times book value. In the first 10 deals to buy larger banks this year, the price was 2.05 times book compared to 1.33 times book for the first four deals this year involving smaller banks. ■

Regulatory appeals process isn't working

In 1994, Congress required federal regulators to offer a regulatory appeals process to banks. Since then, the OCC, FDIC and Federal Reserve have reviewed just 240 appeals and have reversed only 35 in full, said Julie Andersen Hill, associate professor of law at the University of Alabama, Tuscaloosa. Federal regulators also have partially reversed 38 supervisory determinations, Hill said.

The Riegle Community Development and Regulatory Improvement Act of 1994 gave banks the option to appeal "material supervisory determinations" through an "independent intra-agency process." Congress allowed each regulator to define "material supervisory determinations," Hill said.

With 31 reversed decisions and 32 partially reversed, the OCC altered its determinations far more than the Fed or FDIC, Hill said. Together, the FDIC and the Fed have fully reversed only four determinations and partially reversed only six since 1994.

"I would love to tell you this is great and you should go use it," she said. "I think [the low amount of reversed determinations] means the process doesn't work very well."

Hill suggested regulators could improve the process by making appeals public, providing direct access to a stable appellate authority, allowing a broad scope of appealable matters and defining a clear standard of review. ■

Economist predicts one-time opportunity to increase earnings

Bankers could have a one-time opportunity to earn additional income as the Fed increases rates, said Ed Seifreid of Seifried & Brew, a community bank consulting firm based near Philadelphia. Seifreid, who also serves as the chief economist for the Sheshunoff Affiliation Programs, spoke at the BHCA's Spring Seminar on May 5.

"Prior to 2007, the entire reserve system was $25 billion," Seifreid said. "If the Fed wanted to raise rates, they could just suck some liquidity out. Today there is $3 trillion in the reserve system. They don't have the same ability to move rates," he said.

When the Fed starts to raise rates it "will push rates up by paying higher interest on banks' excess reserves in the Fed system," he said, paraphrasing Fed Chair Janet Yellen in testimony before Congress in April. "They are going to encourage banks not to lend at a rate lower than that available at the Fed. They can't just make the rate higher, they need to pay you to make it higher."

Banks that keep funds at the Fed in excess of the required amount have an opportunity to earn a rate considerably higher than their cost of funds, Seifreid said. "If the Fed moves the rate on excess reserves to normal, which I consider to be 4 percent to 5 percent, and up from 0.25 percent, excess reserves will be like a variable rate asset. For a period of time, the excess reserves rate as compared to your cost of funds would make you an enormous amount of money."

Economist Edmond Seifried said NIMs may briefly widen as rates rise.

Seifreid also said bankers should beware of fall-out from liquidity leaving the economy as the Federal Reserve brings monetary stimulus to an end.

The Fed has created stimulus by keeping rates low and by pumping $3.4 trillion into the U.S. economy via large scale asset purchases (LSAP), Seifreid said. "The Fed's asset purchases had four effects: increasing the size of the stock market, bolstering farmland and farm commodity prices, improving housing starts and encouraging exports," he said. "Since the Fed began LSAP, the stock market has doubled in size, farmland and commodity prices have been at historic highs, and housing starts improved by more than three times. Exports also have increased because when you print a lot of cash it lowers the value of the dollar and brings a trade advantage."

Good things happened in the economy when the Fed created liquidity, Seifreid said. "Much of the liquidity that's in the economy, however, doesn't belong there," he said. "It was never meant to remain permanently installed in the economy. So what happens when the Fed removes liquidity?" he asked rhetorically.

The Fed has been fairly clear on how and when it will discontinue LSAP, Seifreid said. "They are not increasing or decreasing the liquidity in the economy right now; they are holding it at current levels," he explained. "The Fed has said it will stop reinvesting capital after it raises interest rates. When they do cease to reinvest, they will primarily hold their portfolio to maturity."

Seifreid said the Fed appears to be looking to raise rates in the summer or fall of this year. "At the last FOMC meeting, 15 members voted to raise rates this year," he said. "Only two voted for next year."

Unless a bank has amazing strategy, pursuing 15 percent in loan growth and 20 percent in deposit growth is inadvisable, Seifreid said. "GDP is the organic growth rate that you are stuck with," he said. "You may grow faster than that but it's because you're taking business from someone else. If you are asking your managers to grow the bank by double digits, good luck. You may grow loans but you will have more nonperforming assets than you can count a few years down the road." ◻

Bankers updated on Subchapter S issues

The new Basel III requirements will make it more difficult for sub S bank owners to pay dividends, even to cover tax liabilities. Regulatory efforts, like the one explained in the FDIC's Financial Institutions Letter 40-2014, are unlikely to resolve the issue, said Kevin Powers of Crowe Horwath, LLP. Powers, who works in the firm's Chicago-area office, spoke May 4 at the Spring Seminar of the Bank Holding Company Association.

In FIL 40-2014, the FDIC says it will consider requests from sub S banks to pay dividends to shareholders to cover taxes, even if a dividend would otherwise not be permitted under the capital conservation buffer (CCB) requirements of Basel III. "Absent significant safety-and-soundness concerns, the FDIC generally would expect to approve exception requests by well-rated S-corporation banks," the letter states.

It is unlikely FIL 40-2014 will address Basel III's tax dividend issue, Powers said. "It may be more window dressing than anything else," he said. "You have to be a fairly healthy bank to even apply for this exemption. It is available but likely will have limited usefulness to the majority of sub S banks out there."

Powers said he has seen banks get cornered by Basel III's capital conservation buffer requirement when they needed to dividend to shareholders to pay taxes. "They couldn't dividend until they met the CCB requirement," he said. "I have even seen banks that

Kevin Powers of Crowe Horwath noted capital pressure growing for some sub S banks.

have involuntarily converted to a C corporation to dividend to shareholders."

While the Basel III requirements are onerous, sub S banks play a central role in the U.S. economy, affirmed Patrick Kennedy, Jr. of Kennedy Sutherland LLP, who joined Powers in the afternoon session devoted to sub S issues. "Sub S participation in small business lending is essentially twice as much as that for C corp banks," he said. That "illustrates how important sub S banks are to their communities. As you all know, sub S banks will not and cannot be replaced by the largest banks in the country."

Elected officials in Washington D.C. are interested in sub S issues when they hear of their importance to rural America, Kennedy said. About a third of the banks in the United States — some 2,300 — are

Sub S issues, *Continued on page 11*

Good recordkeeping can protect directors from FDIC lawsuits

When the FDIC wants to bring a claim against a failed bank's managers and/or directors, the first thing it examines is board meeting minutes, said Neil Falken of CliftonLarsonAllen and Ed Drentell of Winthrop and Weinstine. "Minutes matter; you need to memorialize your discussions in some fashion. Don't be cursory," Drentell said. "Make sure the record shows the board made the best decision it could in good faith."

Falken

Drentell

The FDIC brought nearly 1,200 claims against managers and directors of failed banks between January 2009 and April 2015. Claims consisted of negligence, gross negligence and breach of fiduciary duty. "When something goes wrong, the FDIC probably has someone in Washington D.C., flipping through every page of your meeting minutes looking for negligence," Falken said.

"People feel bad when they disagree on an issue, but if you have nine good board members, they shouldn't agree on everything," Drentell said. "You want everyone's view point noted in the minutes, especially the disagreement. You want your independent thinking recorded.

"Make sure votes are recorded correctly as well," he continued. "You want it recorded that you voted against a decision. If you voted against something and it becomes a court date down the road, neither the regulators nor a judge will give you the time of day if the record shows you voted for it." ■

Thieves are targeting bank customers and wire rooms

Thieves have figured out banks' weak spot: commercial customers' inadequate computer protocol and security, said Craig Collins of One Beacon Professional Insurance. Collins spoke at the BHCA's Spring Seminar on May 5.

CATO or "corporate account takeover" is on the rise as hackers use malicious software to hijack bank customers' computers, log in to the bank's website and steal money. "It's a common story," Collins said. "The customer comes into the bank and their account balance is at $3. They are a $250,000 deposit relationship that does a lot of transfers. The first thing they say is 'someone stole my money out of your bank.' Yet, as the theft is investigated, it's clear the customer didn't have adequate internal controls and the individual making wire transfers got some malicious software on their computer while surfing the web. The hacker obtained control of the customer's computer and used it to make a transfer from the bank."

The bank is usually powerless to stop CATO, Collins said. "The bank did everything it was supposed to do," he said. "There is no way for the bank to sniff out a fraudulent transfer when the request comes from the customer's authorized computer."

The best way to help customers protect themselves is to educate them about proper computer protocol and security, Collins said. "Have a written agreement for commercial accounts that specifies what the customer will do to protect themselves and reduce risk," he said. "That conversation will save you 95 percent of possible issues."

Craig Collins of OneBeacon Professional Insurance alerts bankers to common electronic fraud schemes.

Collins suggested bank customers buy a computer to be used only for transfers. "Laptops are very cheap now," he said. "A dedicated computer would be similar to the old Federal Reserve terminals; it would take a significant amount of exposure out of transfers."

Commercial customers also should disable social media sites, online shopping sites and personal email sites as well as USB portals and CD drives on work computers, Collin said.

Disputes between customer and bank in a CATO situation typically involve the customer's stolen funds. Collins said banks can suggest their customers purchase insurance to protect against losses from CATO. "The issue is the customer doesn't have insurance, so they are looking to the bank to make them whole. Talk with them about insurance; it isn't very expensive. Banks have had it since 1990," he said. "You require commercial real estate customers to buy property insurance. Take a look at requiring insurance for large deposit relationships."

Banks' wire rooms are increasingly the target of thieves, Collins said. "The wire room is a very dangerous place for banks right now. If you provide good customer service in the wire room, you will have criminals trying to exploit that," he said. "You need to train, test and retrain wire room employees to follow protocol."

Collins suggested someone from bank management should routinely test wire room employees' adherence to protocol. "We suggest someone from senior management call the wire room and ask to make a transfer that is in violation of procedure," he said. "Often the manager will call posing as a customer traveling in France who was in a car accident. The manager will tell the employee that unless the bank wires $10,000 immediately to an account, they will be put in jail. The manager may call more than once in efforts to get the employees to lapse from protocol."

Sub S issues,
Continued from page 9

subchapter S banks, he said. Some 2,070 of those have fewer than $1 billion in assets. Some 1,860 are located in areas defined as rural by the census bureau – those with 1,000 people per square mile or fewer. Some 1,820 sub S banks are located in areas with fewer than 500 people per square mile, Kennedy said. "When we go through those statistics for people in Washington D.C., they listen," he said.

Randy Rouse, executive vice president and chief investment officer at Broadway National Bank, San Antonio, Texas, offered comments based on his personal experience. Also participating in the presentation, Rouse said examiners have shifted their focus. The $3.25 billion bank had an examination a year ago in which regulators focused on compliance with the Bank Secrecy Act and on credit quality. "This year they focused heavily of compliance," Rouse said. "Credit quality really wasn't an issue to speak of."


Rouse

Regulators also wanted to see the bank's liquidity plan for a rising rate environment, Rouse said. "Be prepared for the liquidity discussion," he said. "They are very concerned about it."

Rouse suggested a "liquidity stress event test" used at Broadway National Bank. "Examiners love it," he said.

Broadway National Bank's liquidity test assumes 20 percent of DDA accounts, 20 percent of money markets, 10 percent of NOW accounts, 3 percent of savings accounts and 10 percent of time deposits leave the bank over a four-year time period, Rouse said. "When we add all that up, we run about $460 million out of the bank," he said.

Broadway National Bank also assumes the management team takes no action besides replacing deposits with Federal Home Loan Bank borrowings, Rouse said. "Then we hit that whole analysis with 300 bps rate shock," he said. "With this test we show the regulators that we still make money in that scenario and we were back on track in 24 months. Have something like that in your pocket when the examiners come because they have a quick and dirty liquidity calculation that stresses liquidity in a similar way."

For Community Reinvestment Act examinations, Broadway National Bank has partnered with certain Small Business Investment Companies to improve its rating, Rouse said. "SBIC funds are basically a venture capital fund. They get $25 million from commercial investors like banks and they leverage it by two times through SBA," he said. "We don't typically invest more than $2 million in any SBIC. There are SBICs that provide capital or subordinated debt for companies to grow. Then they relocate the company [and the jobs] to a low to moderate income area. The examiners think that is really slick." ▯

Bankers must avoid distractions to perform

Performing well in banking requires the same approach needed to win Olympic medals, said Paul Kingsman, the New Zealand swimmer who won a bronze medal in the 200 meter backstroke in the 1988 Summer Olympics. Kingsman spoke on strategies to achieve personal and organizational goals at the BHCA's Spring Seminar on May 5.

Staying focused while a competitor was distracted literally allowed Kingsman to win the bronze medal. In the last seconds of the race, Kingsman was in fourth place. The swimmer in third slowed down by looking to see if Kingsman was catching him and in that split second delay Kingsman was able finish the race ahead of him.

Passion isn't enough to win an Olympic medal and it won't be enough for bankers to reach their goals, Kingsman said. "It does start with passion," he said. "But things don't just miraculously happen because you have passion."

The step after passion – distraction proof priorities – is the important step, he said. "Translate your passion into realistic, measurable goals or priorities," he said. "What actions must you complete in order to reach your goals?"

Professional athletes often do well in business because they are used to setting and meeting deadlines, Kingsman said. Game day or the day of the race, is a set point. When game day comes athletes need to be ready, he said. "Put a deadline in place for your actions," he said. "Priorities aren't the intention to do something. Priorities are directives. They determine what action you will take – not actions you simply intend to take when you get the chance. The difference is subtle, yet vital."

Snap.chat Spring Seminar









New to BHCA

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

Larch Bancorporation, Inc.
Hills, Minn.
Rodney Bonander
CEO

Commonwealth Bancshares, Inc.
Louisville, Ky.
Michael Dugle
EVP/CFO

Delano State Agency
Delano, Minn.
Steven Gilmer
Chairman

Glenwood Bancorporation
Glenwood, Iowa
John Dean
President

The Bank Holding Company Association welcomes the following Associate Members:

Reinhart Boerner Van Deuren, S.C.
Milwaukee, Wis.
James Sheriff
Attorney

Reinhart is a full-service business law firm with offices in Milwaukee, Madison, Waukesha, Chicago, Rockford, Phoenix and Denver. The firm has a large banking and finance, and financial institutions regulatory practice.

Malzahn Strategic
Maple Grove, Minn.
Marci Malzahn
Principal

Malzahn Strategic works with community banks to strengthen their enterprise risk management program, and establish a solid organizational infrastructure and operational foundation.

A Six-Point Plan for Strengthening Cybersecurity

By John Moeller

Few are surprised to hear that federal and state regulators are pressing financial institutions on cybersecurity planning, readiness and oversight. After all, there has been plenty of warning that a higher level of scrutiny was coming, beginning with a 2013 presidential executive order on improving the nation's cybersecurity infrastructure, and most recently, the Federal Financial Institution Examination Council's pilot examination program last summer.

All of this activity is now filtering down to the local level and surfacing as questions posed by IT examiners.

Board members are meeting one-on-one with examiners, who want to know how the board is providing oversight and ongoing risk monitoring. Examiners are asking senior management about how the institution is educating board members on cybersecurity risks and the changing threat landscape. Management is being asked to develop a comprehensive cybersecurity policy that includes incident detection and a response plan.

Responding to these inquiries can be a challenge, even for institutions that view themselves as being up-to-date on the latest cybersecurity threats and defenses. But the threats are always changing and they are clearly not going away. As examiners continue to raise their expectations, senior management and the board of directors must take a more comprehensive and proactive approach to cybersecurity.

Following is a six-point framework that can help your financial institution recognize its current risks, strengths and weaknesses related to cybersecurity, and develop detailed policies and plans. It is based, in part, on the questions that examiners are asking financial institutions. These actions invariably carry a price tag and they cannot all be done at once, so it is important to set priorities and budgets early in the process.

Update your information security program to address cybersecurity

- Develop a cybersecurity framework that is appropriate for your institution's risk profile.
- Create necessary cybersecurity policies and guidelines.
- Develop a strategic information security plan in sync with your strategic technology plan.
- Provide cybersecurity training to key staff.
- Update job descriptions that have cybersecurity responsibilities.
- Create and maintain a cybersecurity risk assessment.
- Identify all third-party connections to your network and the location of sensitive information on the network, in the cloud or offsite.

Expand information security controls

- Develop configuration standards for all devices attaching to the network; follow vendor hardening guides and/or create baseline configuration standards and policies.
- Identify new vulnerabilities and threats.

Cybersecurity, *Continued on page 18*

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.

▷ Gregory Jackson, Detroit, and Roy S. Roberts, Bloomfield Hills, Mich., filed to acquire 25 percent or more of First Independence Corp., Detroit, and thereby acquire control of First Independence Bank, Detroit.

▷ Notice filed by Horizon Bancorp, Michigan City, Ind., to acquire Peoples Bancorp, Auburn, Ind., and acquire Peoples Federal Savings Bank of DeKalb County, Auburn, and thereby operate a savings association. Horizon Bank, N.A., Michigan City, will merge with Peoples Federal Savings Bank of DeKalb County, Auburn, and establish 15 branches.

▷ Change in Control notice filed by Elizabeth J. Hyduke Kelm, Golden Valley, Minn., and others to acquire 25 percent or more of Duke Financial Group, Inc., Minneapolis, and thereby gain control of Peoples Bank of Commerce, Cambridge, Minn., and State Bank of New Prague, Minn.

Inter-Mountain Bancorp, Inc., Bozeman, Mont., filed to merge with Teton Bancshares, Inc., Fairfield, Mont., and thereby acquire Teton Banks, Fairfield.

▷ Change in Control notice filed by The Belva H. Rasmussen 2012 Irrevocable Trust, Roseville, Minn., and others to acquire 25 percent or more of Northeast Securities Corp., Minneapolis, and thereby gain control of Northeast Bank, Minneapolis.

▷ J. Scott Nelson, Redwood Falls, Minn., and others filed to acquire and retain 10 percent or more of Redwood Financial, Inc., and thereby acquire Hometown Bank, Redwood Falls.

▷ Change in Control notice filed by Eric Ross Allen, Los Angeles, to acquire 10 percent or more of Rum River Bancorporation, Inc., Milaca, Minn., and thereby gain control The First National Bank of Milaca.

▷ Change in Control notice filed by Joel Sanders, Oakland, Calif.; James N. Sanders, Plymouth, Minn., and others to join the Tychman/Sanders group, which controls 25 percent or more of The Tysan Corporation, Minneapolis, and thereby gain control of Lake Community Bank, Long Lake, Minn., and Pine Country Bank, Little Falls, Minn.

▷ Jones National Corp., Seward, Neb., filed to acquire Valparaiso Enterprises, Inc., parent of Oak Creek Valley Bank, both in Valparaiso, Neb.

▷ Notice filed by the Frank D. Dunnick Trust, Pittsburg, Kan., and others to acquire control of Southeast Kansas Bancshares, Inc., Girard, Kan., parent of Prescott State Bank Holding Company, Inc., and Prescott State Bank, both in Prescott, Kan; and Exchange State Bank, Saint Paul, Kan.

▷ MidWest*One* Financial Group, Inc., Iowa City, Iowa authorized to acquire shares of Central Bancshares, Inc., Golden Valley, Minnesota, and thereby acquire Central Bank.

▷ Ameriwest Corporation, Omaha, Neb., has elected to become a financial holding company.

▷ Minier Financial, Inc. Employee Stock Ownership Plan w/401(k) Provisions, Minier, Ill., authorized to increase its ownership of Minier Financial, Inc., Minier, and thereby increase its indirect ownership of First Farmers State Bank.

▷ Wintrust Financial Corporation, Rosemont, Ill., filed to acquire via merger Suburban Illinois Bancorp, Inc., Elmhurst, Ill., and thereby control Suburban Bank & Trust Company, Elmhurst.

▷ First Interstate BancSystem, Inc., Billings, Mont., filed to merge with Absarokee Bancorp., Inc., Absarokee, Mont., and thereby acquire United Bank, Absarokee.

▷ Deerwood Bancshares, Inc., Deerwood, Minn., authorized to acquire through its subsidiary, Deerwood Bank, Deerwood, American Bank of St. Paul, Minn.

▷ Ambank Company, Inc., Sioux Center, Iowa proposes to acquire Alton Bancorp., Alton, Iowa, and thereby acquire Community Bank, Alton.

▷ Robert A. Clemente and trustee propose to acquire more than 30 percent of the stock of Oxford Bank Corp., Oxford, Mich., and thereby acquire Oxford Bank, Oxford.

▷ Inter-Mountain Bancorp., Inc. Bozeman, Mont., authorized to merge with Teton Bancshares, Inc., Fairfield, and thereby acquire Teton Banks.

▷ Wintrust Financial Corp., Rosemont, Ill., authorized to merge with Community Financial Shares, Inc., Glen Ellyn, and thereby acquire Community Bank-Wheaton/Glen Ellyn; and for Wintrust Financial's subsidiary, Wheaton Bank & Trust Company, Wheaton, to merge with Community Bank-Wheaton/Glen Ellyn and thereby establish four branches.

▷ First Illinois Corp., Decatur, Ill., and HPB Holdings, Inc., Decatur, filed to convert from savings and loan holding companies to bank holding companies and thereby control Hickory Point Bank and Trust, FSB, Decatur, a federal savings bank that is converting to an Illinois state-chartered nonmember bank with trust powers to be known as Hickory Point Bank and Trust.

▷ FNB Barry Bancorp, Inc., Barry, Ill., filed to become a bank holding company by acquiring at least 66 percent of First National Bank of Barry.

▷ UniBanc Corp., Maywood, Neb., filed to acquire Bank of Stapleton, Neb. UniBanc Corp., Maywood, filed to acquire substantially all of the nonbank assets of Stapleton Investment Company, Stapleton, and thereby engage in general insurance activities in a town with a population of less than 5,000.

▷ Wintrust Financial Corporation, Rosemont, Ill., authorized to acquire North Bank, Chicago, and for Wintrust Bank to merge with North Bank and thereby establish two branches.

▷ Equitable Financial MHC, Grand Island, Neb., authorized to convert from mutual to stock form and for Equitable Financial Corp., a *de novo* company, to become a savings and loan holding company by acquiring Equitable Bank, Grand Island.

▷ Hinsdale Bank & Trust Company, Hinsdale, Ill., filed to merge with Suburban Bank & Trust Co., Elmhurst, Ill., and all 10 locations of Suburban Bank & Trust will become branches of Hinsdale Bank & Trust.

▷ Foresight Financial Group, Inc., Rockford, Ill., authorized to acquire State Bank of Herscher, Ill.

▷ Isabella Bank, Mount Pleasant, Mich., filed to purchase a Sagnaw, Mich., branch of Flagstar Bank, Troy, Mich. ▯

Federal Reserve permits holding companies to engage in some non-banking activities

By Julie Randall

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

Bank holding companies may, for a variety of reasons, add non-banking activities to their operations. The Bank Holding Company Act of 1956, as amended, limits the types of non-banking activities in which BHCs can engage; however, there are some non-banking activities that BHCs may engage in, directly or indirectly through a subsidiary. Many of these require the prior approval of the Federal Reserve, while others may be conducted without obtaining prior approval. In this article, I will discuss the more common activities that BHCs can perform that do not require prior approval. I will also discuss the limitations and restrictions that apply to activities about which we frequently receive questions. Later this year, we'll discuss activities that require prior approval.

The BHC Act identifies activities a BHC may provide without obtaining prior approval. Generally, these activities involve providing a service to the subsidiary bank(s) and include:

- Holding or operating properties used wholly or substantially by any banking subsidiary of the BHC in the operations of such banking subsidiary or acquired for such future use;
- Conducting a safe deposit business;
- Furnishing services to or performing services for the BHC or its banking subsidiaries; or
- Liquidating assets acquired from the BHC or its banking subsidiaries.

Regulation Y further defines the servicing activities referenced in the BHC Act and lists other non-banking activities that do not require the Federal Reserve's prior approval as well. Servicing activities as defined in Regulation Y include, but are not limited, to activities below:

- Accounting, auditing and appraising;
- Advertising and public relations;
- Data processing and data transmission services, data bases and facilities;
- Personnel services;
- Courier services;
- Holding or operating property used wholly or substantially by a subsidiary in its operations or for its future use;
- Liquidating property acquired from a subsidiary; and
- Selling, purchasing or underwriting insurance, such as blanket bond insurance, group insurance for employees, and property and casualty insurance.

BHCs must report these activities by submitting an FR Y-10 to the appropriate Reserve Bank when they begin conducting them. BHCs also need to appropriately compensate their bank subsidiaries for any resources that subsidiaries may provide in association with the activities (e.g., personnel).

We frequently get questions regarding two of these activities: holding of real estate and acquiring assets for liquidation. BHCs can hold real estate that is or will be in the future, premises for a bank subsidiary. However, the phrase "used wholly or substantially" is key since unused space the BHC might lease to third parties could raise concerns if it represents a significant proportion of the property. The Federal Reserve makes the determinations based on the facts and circumstances of particular situations; we have not defined the term "substantially." Generally, if the BHC does not propose to use 25 percent or more of the property for banking operations upon acquisition or increase its use to 50 percent in a reasonably short period of time, it should consult with the Federal Reserve prior to acquiring the property.

BHCs can acquire other real estate and loans from their bank subsidiaries for the purposes of liquidation; however, certain restrictions apply to activities conducted under the servicing

Fed Notes, *Continued on next page*

MONTANA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
1.FIRST INTERSTATE BANCSYSTEM, INC., BILLINGS	**8,604,995**	
FIRST INTERSTATE BANK, BILLINGS		8,576,299
2.GLACIER BANCORP, INC., KALISPELL	**8,306,823**	
GLACIER BANK, KALISPELL		8,288,508
3.STOCKMAN FINANCIAL CORP., MILES CITY	**3,025,682**	
STOCKMAN BANK OF MONTANA, MILES CITY		3,016,833
4.INTER-MOUNTAIN BANCORP., INC., BOZEMAN	**697,842**	
FIRST SECURITY BANK, BOZEMAN		694,338
5.YELLOWSTONE HOLDING CO., COLUMBUS	**669,841**	
THE YELLOWSTONE BANK, LAUREL		669,841
6.EAGLE BANCORP MONTANA, INC., HELENA	**560,207**	
OPPORTUNITY BANK OF MONTANA, HELENA		555,380
7.MONTANA SECURITY, INC., HAVRE	**555,618**	
INDEPENDENCE BANK, HAVRE		555,338
8.BITTERROOT HOLDING CO., LOLO	**392,995**	
BITTERROOT VALLEY BANK (MERGED WITH WEST ONE BANK), LOLO		352,939
9.THE BRIDGER CO., BRIDGER	**374,564**	
BANK OF BRIDGER, N.A. , BRIDGER		374,098
10.FARMERS STATE FINANCIAL CORP., VICTOR	**336,345**	
FARMERS STATE BANK, VICTOR		336,233
11.GUARANTY DEVELOPMENT CO., LIVINGSTON	**323,855**	
AMERICAN BANK, BOZEMAN		321,583
12.FIRST NATIONAL BANCORP, INC., MISSOULA	**287,093**	
FIRST MONTANA BANK, INC., LIBBY		284,865
13.FIRST COMMUNITY BANCORP, INC., GLASGOW	**280,986**	
FIRST COMMUNITY BANK, GLASGOW		280,975
14.KING KALISPELL, LLC, KALISPELL	**241,296**	
VALLEY BANCSHARES, INC., KALISPELL		**122,683**
VALLEY BANK OF KALISPELL		122,683
GREAT NORTHERN BANCSHARES, INC., KALISPELL		**115,545**
THREE RIVERS BANK OF MONTANA, KALISPELL		115,033
15.FLATHEAD HOLDING CO. OF BIGFORK	**218,059**	
FLATHEAD BANK OF BIGFORK		213,802
16.TETON BANCSHARES, INC., FAIRFIELD	**201,457**	
TETON BANKS, FAIRFIELD		201,457
17.UNITED BANCORPORATION, BAKER	**163,507**	
THE BANK OF BAKER		162,811
18.MSB FINANCIAL, INC., MANHATTAN	**146,174**	
MANHATTAN BANK, MANHATTAN		146,089
19.JACKASS CREEK LAND & LIVESTOCK CO., ENNIS	**142,876**	
FIRST MADISON VALLEY BANK, ENNIS		142,356
20.FS BANCO, INC., MALTA	**142,303**	
FIRST STATE BANK OF MALTA		139,195
21.FORSYTH BANCSHARES, INC., FORSYTH	**140,669**	
FIRST STATE BANK OF FORSYTH		126,181
22.PRAIRIE BANCSHARES CORP., SHELBY	**138,872**	
FIRST STATE BANK OF SHELBY		138,861
23.COUNTRICORP, WHITE SULPHUR SPRINGS	**132,858**	
BANK OF THE ROCKIES, N.A., WHITE SULPHUR SPRINGS		132,530
24.CBT CORPORATION, INC., BIG TIMBER	**110,616**	
CITIZENS BANK & TRUST CO., BIG TIMBER		110,966
25.TWINCO, INC., TWIN BRIDGES	**88,934**	
RUBY VALLEY NATIONAL BANK, TWIN BRIDGES		88,512
26.WESTERN HOLDING CO. OF WOLF POINT	**87,330**	
WESTERN BANK OF WOLF POINT		89,104
27.TREASURE BANCORP, INC., PLENTYWOOD	**84,139**	
MONTANA STATE BANK, PLENTYWOOD		83,433
28.ANTLER LAND CO., HARDIN	**83,498**	
LITTLE HORN STATE BANK, HARDIN		83,403
29.ABSAROKEE BANCORPORATION, INC., ABSAROKEE	**74,925**	
UNITED BANK, ABSAROKEE		74,868
30.GARFIELD COUNTY BANCSHARES, INC., JORDAN	**72,530**	
GARFIELD COUNTY BANK, JORDAN		70,396
31.MILK RIVER BANQUO, INC. , MALTA	**71,634**	
MALTA BANQUO, INC., MALTA		**71,803**
FIRST SECURITY BANK OF MALTA		34,678
VALLEY BANK OF GLASGOW		36,868
32.VALLEY HOLDING CO., RONAN	**66,691**	
VALLEY BANK OF RONAN		66,663
33.FLINT CREEK HOLDING CO., PHILIPSBURG	**66,544**	
GRANITE MOUNTAIN BANK, INC., PHILIPSBURG		66,544
34.BOZEMAN BANCORP, INC., BOZEMAN	**64,390**	
BANK OF BOZEMAN		64,224
35.BUTTE BANK SHARES, INC., BUTTE	**64,022**	
FIRST CITIZENS BANK OF BUTTE		63,741
36.1ST UNITED BANCORPORATION, INC., SIDNEY	**60,976**	
1ST BANK, BROADUS		53,074
37.S.B.T. FINANCIAL, INC., TOWNSEND	**54,411**	
STATE BANK OF TOWNSEND		54,251
38.BANCORP OF MONTANA HOLDING CO., MISSOULA	**52,819**	
BANK OF MONTANA, MISSOULA		52,749
39.CENTRAL MONTANA BANCORPORATION, ROUNDUP	**52,670**	
FIRST SECURITY BANK OF ROUNDUP		51,930
40.FREEDOM BANCORPORATION, COLUMBIA FALLS	**51,910**	
FREEDOM BANK, COLUMBIA FALLS		51,910
41.SALISH AND KOOTENAI BANCORPORATION, POLSON	**49,594**	
EAGLE BANK, POLSON		49,594
42.F.S.B. HOLDING CO., HELENA	**39,036**	
FIRST SECURITY BANK OF HELENA		38,857
43.BIG MUDDY BANCORP, INC., DUTTON	**33,761**	
DUTTON STATE BANK, DUTTON		33,758
FARMERS STATE BANK OF DENTON		20,034
44.FIRST SECURITY GROUP, DEER LODGE	**31,004**	
FIRST SECURITY BANK OF DEER LODGE		30,545
45.SANDQUIST CORP., DEER LODGE	**29,444**	
PEOPLES BANK OF DEER LODGE		29,444
46.FLATHEAD LAKE BANCORPORATION, INC., POLSON	**19,924**	
FIRST CITIZENS BANK OF POLSON, N.A.,		19,991

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of December 31, 2014. *Dollar amounts in thousands*

Fed Notes, *Continued from previous page*

exemption. If the BHC acquires other real estate, it must intend to sell the property as soon as feasible. It cannot extend any credit in association with its holding of the property, and it can invest in the property only to the extent necessary to ensure its marketability to potential buyers. In other words, the BHC cannot treat the property as if it were a business the company would continue to operate. If the BHC acquires a loan, it cannot alter the loan's terms or conditions since this would represent a new loan to the entity, and the BHCA would be engaging in lending activities rather than liquidating an asset. BHCs also need to ensure their purchases of the loans or other real estate from their bank subsidiaries comply with the market value requirement of section 23B of the Federal Reserve Act.

The discussion above highlights only a few of the non-banking activities that do not require the Federal Reserve's prior approval. If you have questions about the permissibility of a non-banking activity or whether it would qualify of a servicing exemption, please contact Reserve Bank staff to discuss the proposed transaction. ▯

Julie Randall is Applications Analyst for the Federal Reserve Bank of Minneapolis

WYOMING BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
1. MIDLAND FINANCIAL CORP., CASPER	710,222	
HILLTOP NATIONAL BANK, CASPER		706,956
2. BANCSHARES OF JACKSON HOLE, INC., JACKSON	616,098	
BANK OF JACKSON HOLE, JACKSON		609,311
3. FIRST NATIONAL BANK OF GILLETTE HOLDING CO.	584,171	
FIRST NATIONAL BANK OF GILLETTE		578,170
4. CONVERSE COUNTY CAPITAL CORP., DOUGLAS	500,756	
CONVERSE COUNTY BANK, DOUGLAS		500,253
5. RSNB BANCORP, ROCK SPRINGS	377,591	
RSNB BANK, ROCK SPRINGS		377,032
6. FINANCIAL SECURITY CORP., BASIN	356,110	
SECURITY STATE BANK, BASIN		356,110
7. JONAH BANKSHARES, CASPER	302,416	
JONAH BANK OF WYOMING, CASPER		302,416
8. FIRST NAT'L BUFFALO BNKSHRE, INC., BUFFALO	275,610	
FIRST NORTHERN BANK OF WYOMING, BUFFALO		275,025
9. FIRSTIER II BANCORP., CHEYENNE	235,524	
FIRSTIER BANK, KIMBALL		235,524
10. TETON FINANCIAL SERVICES, LLC, WILSON	218,231	
ROCKY MOUNTAIN BANK, JACKSON		218,231
11. CARBON COUNTY HOLDING CO., RAWLINS	187,048	
RAWLINS NATIONAL BANK, RAWLINS		165,206
12. SUNDANCE BANKSHARES, INC., SUNDANCE	183,527	
SUNDANCE STATE BANK, SUNDANCE		181,201
13. FIRST WYOMING BANCORP., LARAMIE	164,554	
WYOMING STATE BANK, LARAMIE		164,434
14. NE WYOMING BANK CORP., INC., NEWCASTLE	155,996	
FIRST STATE BANK OF NEWCASTLE		155,958
15. FARMERS STATE BANKSHARES, INC., CHEYENNE	146,340	
WYOMING BANK & TRUST, CHEYENNE		145,861
16. WYOMING NATIONAL BANCORP., INC., RIVERTON	136,203	
WYOMING COMMUNITY BANK, RIVERTON		136,202
17. STAR VALLEY BANCSHARES, INC., AFTON	132,284	
BANK OF STAR VALLEY, AFTON		131,748
18. UCSB FINANCIAL CORP., MOUNTAIN VIEW	131,068	
UINTA BANK, MOUNTAIN VIEW		119,778
19. RAWLINS BANKSHARES, INC., RAWLINS	127,434	
BANK OF COMMERCE, RAWLINS		127,127
20. CRAZY WOMAN CREEK BANCORP, INC., BUFFALO	107,257	
BUFFALO FEDERAL BANK, BUFFALO		106,917
21. HULETT BANCORP, HULETT	62,210	
SUMMIT NATIONAL BANK, HULETT		62,210
22. BANKERS CAPITAL CORP., LUSK	59,301	
LUSK STATE BANK, LUSK		59,290
23. COWBOY STATE BANCORP, INC., RANCHESTER	42,066	
COWBOY STATE BANK, RANCHESTER		42,066
24. COMMUNITY BANKSHARES OF WYO., GUERNSEY	33,841	
OREGON TRAIL BANK, GUERNSEY		33,841
25. COMMERCIAL BANCORP, PINE BLUFFS	32,560	
FARMERS STATE BANK, PINE BLUFFS		30,309

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of December 31, 2014. *Dollar amounts in thousands*

Cybersecurity, *Continued from page 14*

• Schedule regular cybersecurity reports (i.e., event logs, firewalls, cyber incidents).

Enhance network security (hardening)

• Review administrator account management (normal and privileged).

• Remove local administrative rights.

• Review domain administration restrictions.

• Require strong passwords and implement password management.

• Implement internal network multifactor authentication and encryption.

• Research and deploy email hardening.

• Create website white lists.

Upgrade third-party vendor and customer management

• Add recommended cybersecurity language to agreements and contracts.

• Obtain an independent review of service provider cybersecurity controls (i.e., Statement on Standards for Attestation Engagements (SSAE) 16, FFIEC IT review, IT audit, internal and external penetration testing).

• Conduct a risk assessment for online cash management customers.

• Require cash management customers to obtain the appropriate level of cyber liability insurance.

Strengthen management and board oversight and cybersecurity governance

• Initiate cybersecurity framework implementation.

• Provide regular cybersecurity board reports.

• Develop cyber-risk management policies.

• Share threat intelligence through organizations such as the Financial Services Information Sharing and Analysis Center.

• Develop and deploy a cybersecurity incident response plan.

Enhance cybersecurity testing

• Conduct external penetration tests that mimic the real world techniques of cybercriminals.

• Conduct internal network penetration tests to look for configuration weaknesses, unsecure network file shares and data leakage.

Remember that these points are only a framework — a broad look at starting points or extensions of your existing policies and processes. Determining the specific elements and timing for your institution begins with a risk and vulnerability assessment. Your accounting firm can then help you manage threats in line with the complexity and risk profile of your institution.

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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.

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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.
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Appreciate our regional focus.
With holding company members from Minnesota, Wisconsin, the Dakotas, Iowa, Illinois and Nebraska, 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.

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Gain access to regulators.
BHCA hosts as-needed events featuring representatives from the Federal Reserve, Federal Deposit Insurance Corp., Office of the Comptroller of the Currency, and state regulatory agencies.
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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.*

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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

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