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Bank Owner

The magazine of the Bank Holding Company Association

Complete Fall Seminar Coverage

A look at Permitted Non-banking Activities

New 'Mini' Seminar Set for March

Season's Greetings

from the BHCA Board of Directors

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The Bank Holding Company Association

Mission Statement:

The Bank Holding Company Association, the premier national organization for bank holding company owners, directors and employees, provides education and networking opportunities to those who work in, or serve, the financial services industry. Through seminars, webinars, printed materials and other means, the association supports the vitality of bank holding companies.

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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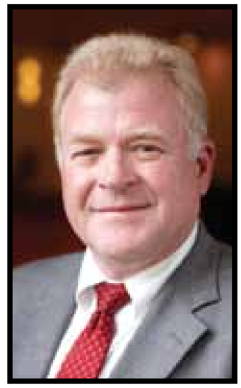
CALENDAR *Register for events online at www.theBHCA.org*

Mar. 15, 2016 — Regional Seminar: Details on page 15, Honey Creek Resort, Moravia, Iowa

May 2-3, 2016 — 2016 Spring Seminar, Bloomington, Minn.

Oct. 3-4, 2016 — 2016 Fall Seminar, Bloomington, Minn.

Many good memories from 2015 as BHCA readies for 2016



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

Serving as president of the Bank Holding Company Association has been a good experience; my term concludes at the end of the month, and beginning the first of the year, I transition to Immediate Past President, making way for Michael Vekich, who is a director at HF Financial Corp., Sioux Falls, S.D. Mike has a keen sense for governance and has been a great addition to our board. I have no doubt he will do a great job as President.

If you attended our annual meeting, conducted just prior to the beginning of our Fall Seminar on Oct. 6, you may recall that Paul Means, president of Great River Holding Company in Baxter, Minn., will be our Vice President in 2016. Larry Peterson of First Financial Services, Inc., Moose Lake, Minn., remains our Treasurer. Bill Rosacker, president of United Bankers' Bank in Bloomington, Minn., who served as our Immediate Past President this year, leaves the board, concluding four years of service. We are grateful for his service. Also leaving the board is Jim Kramer, president of Southeast Minnesota Bancshares, Inc., of Altura, Minn.

We are most pleased to welcome two new board members, beginning Jan. 1. They are Brenda Johnson and Mary Jane Crocker.

Brenda is the majority shareholder and chair of the board of directors of Charter Bankshares, Inc., a bank holding company headquartered in Eau Claire, Wis. Charter Bankshares is the parent company of Charter Bank, a 35-year-old community bank with more than $800 million in assets operating from its offices in Eau Claire, Wis.; Chaska, Minn., and Chanhassen, Minn. *Independent Banker* magazine recently recognized Charter Bank as a top performer nationally based on its earnings and operational efficiencies, and *American Banker* magazine has just named Charter Bank one of the "Best Banks to Work For" for the second year in a row. Brenda received her undergraduate degree in business administration at Drake University in Des Moines, Iowa, and her MBA from the University in Hartford in Hartford, Conn. Much of her business career was spent in commercial insurance, working for Aetna, Travelers, and the St. Paul Companies.

Mary Jayne Crocker has more than 20 years of experience in the financial services industry. As a member of the senior leadership team at Bridgewater Bank, she oversees all functions of retail banking, marketing, product development and investor relations. Since the bank's origin, Crocker has been influential in defining the organizational structure, culture, staff development, branding and physical branch layouts of Bridgewater Bank. She has a business degree with a major in finance from Macalester College in St. Paul, Minn., and is also a graduate of The Institute of Certified Bankers. She was recognized in 2013 as one of the Top Women in Finance by *Finance & Commerce*. Mary Jayne also holds several leadership positions with community organizations, including the Eden Prairie Rotary Club, where she chairs the intern program.

I am confident that the new board of directors will chart a great course for the Bank Holding Company Association. The seminar dates for next year already are set: the Spring Seminar is May 2-3 and the Fall Seminar is Oct. 3-4. Both meetings again will take place at the Minneapolis Airport Marriott Hotel in Bloomington, across the street from the Mall of America. While other meetings change their venues every year, the BHCA has used the same location for a number of years, making it easier for people to find us. The staff at the Marriott consistently gives us great service and their rates are reasonable. All in all, we consider it to be a great value and a great place for our seminars.

As I reflect back on 2015, I recall many excellent speakers who presented at our two seminars. I recall Edmond Seifried, the economist who spoke at our Spring Seminar. He told us that if the Fed raises rates, there may be an opportunity to make money on excess funds held in reserve. I recall banking professor

President's Observations, *Continued on page18*

BHCA active with growing events, brand new 'mini' seminar in March

I am grateful to the Members and Associate Members of the Bank Holding Company Association who have helped us build some real momentum during the last few years. We just concluded a successful Fall Seminar, an informative Directors' Series of webinars, and are making plans for a new event in 2016.

I am very pleased to announce that the BHCA will be hosting a mini-seminar on Tuesday, March 15, 2016 at the Honey Creek Resort near Moravia, Iowa. This is a one-day event that will bring our popular seminar format to a location outside the Twin Cities. This is a new venture for us. The purpose is to make it easier for bankers located a long drive from the Twin Cities to experience the Bank Holding Company Association.

There are many excellent holding companies located in Iowa, Illinois and Missouri. A small number are BHCA members, but most don't have much familiarity with our organization. The mini-seminar is designed to bring the best of the association to them, so they can see what we are all about. Our hope is they will like what they see and consider becoming members. While there are trade groups designed for bank presidents and senior managers, there really are no other groups focused solely on holding company issues and ownership issues. There is a real need, however, for education on these kinds of issues. The BHCA is happy to provide that information and the new mini-seminar is an attempt to expand the circle of members who have access to it.

For the March 15 event we are bringing in some of the past speakers who consistently have received our highest ratings on seminar evaluations. Our day will start at 9:30, featuring two educational speakers in the morning and two in the afternoon. We will bring in a special luncheon speaker. I expect our day to conclude at around 3:30 giving most attendees sufficient time to drive back to the office or home at the end of the day. On that Tuesday, the Honey Creek Resort also will be hosting the annual meeting of Heritage Clubs International, which is a trade group serving bank travel club directors. We will share lunch, which should make for some interesting conversations!

If you have never been to a BHCA seminar because you live in Southern Iowa, Northern Missouri or Western Illinois and found the drive to the Twin Cities to be too far, I urge you to put this March 15 event on your calendar. You will find a registration form elsewhere in the magazine. Due to the generosity of our sponsors, we have been able to keep the registration rate very affordable. Call me if you have questions, but the best approach is simply to sign up and see for yourself. I think you will find the BHCA to be highly educational and a great venue for networking.

By Tom Bengtson
BHCA Managing Director

Let me share with you just a few notes regarding recent developments at the BHCA. December is the month we ask you, our Members, to renew your dues for the coming year. We have a total of 206 Members, which consists of 140 bank holding companies, 54 Associate Members and 12 reciprocal members. Every year, we lose a few members to factors such as merger or acquisition, but we gain several new members. For 2015, we lost seven holding company members, but gained exactly seven new members. In addition, while we lost six Associate Members, we gained six Associate Members. Upon final count, BHCA membership stayed steady from a year ago. Going back a few years, the trend is positive. Total membership is up from 174 members in December of 2011.

On Thursday, Nov. 19, we completed our Directors Series of webinars. For the last few years, we have been offering a series of three webinars specifically designed for bank directors. The series has proven quite popular. The format is one-hour webinars presented three consecutive Thursday mornings in November. This year the topics were technology issues, compliance issues and a perennial favorite, BSA training.

The Directors Series brought to a close our webinar offerings for the year. Webinars have become an effective way to present educational topics. We are fortunate to have so many capable Associate Members willing to make presentations. In 2015 we conducted six webinars in total. If you registered for any of them, you can access them to listen again, if you like. If you missed a webinar when it was offered, you can still access them in the "members only" section of our website and purchase a recording for just $49.

Lastly, I want to encourage you to mark May 2-3 and Oct. 3-4 on your 2016 calendars. Those are the dates of our Spring and Fall seminars. We are making plans now to arrange for top industry speakers to address these events. Educational and inspiring presentations go a long way toward a successful meeting, but most important is your participation. Everyone who attends a seminar adds to its value for the other attendees. The reason our seminars have such a great reputation for networking is because so many of you consistently attend. Thank you for your loyalty, and I look forward to seeing you in 2016! ▯

Other news

By Matthew Doffing

Bankers encouraged to innovate and thrive

Community banks can innovate and overcome the challenges that threaten their survival, said Don Musso, president of FinPro, Inc., of Gladstone, N.J., and founder/shareholder of six community banks in Pennsylvania and New York. Musso spoke to 200-plus bank owners, directors and guests attending the Bank Holding Company Association's Fall Seminar conducted Oct. 5-6 at the Minneapolis Airport Marriott Hotel in Bloomington, Minn.

If community banks do not innovate on the traditional model, however, they risk becoming the next Blockbuster, Musso said. "As an investor in community banks, that is a tough admission," he said.

Most banks have enough capital to grow, Musso said. "There just isn't enough room for all of us," he said. "Look to the left and to the right. One banker will find growth and the other will not. One of you will be the next opportunity for consolidation."

To be a survivor of consolidation, community banks must figure out how to grow in their market, Musso said. "You do not need to do anything rash, but you need to start [toward a new model]," he said. "We are probably going to go to 5,000 banks. But it is not going to happen in a year. At most we are talking about 250 mergers a year; it will take five to six years. You have time."

With the time they have, community banks need to develop a new product delivery strategy, Musso said. The focus shouldn't be only on utilizing digital delivery channels. Human delivery of banking products is the most important place to invest, he said. "Talent management is the most important thing we as bankers need to do," he said.

As the baby boomers move on to retirement, millennials are becoming the main cohort in the work force. Recruiting millennials should be a focus of banks' talent management strategy, Musso said.

Consultant Don Musso: "We are probably going to go to 5,000 banks. But it is not going to happen in a year."

To recruit millennials "we have to recruit at their level," he said. "If Don Musso goes to recruit millennials, we fail miserably. If I send other millennials — our once interns who are now employees — to tell potential recruits what a great place we are, they come. We went from having a hard time getting five or six interns per year to now we have 1,000 applicants for internships per year."

Millennials and baby boomers are not at all alike, Musso said. "Millennials aren't about success yet. They are about leisure time, having fun and work-life balance," he said. "We see this at our company. When we bought a new building, I asked my employees what they wanted. To a person, boomers wanted their own office and rigid structure. Millennials wanted an open space, they wanted games, a coffee bar and a pool table.

"My question to millennials was 'well, when are you going to work?" he continued. "They assured me they would get the work done. And they do."

Baby boomer employees will accept accommodation of millennials' work style as long as the work gets done, Musso said. "I have no problem from boomers because they know that if the work doesn't get done we will clean house at the low end of the ranks," he said.

A willingness to clean house, Musso said, also is a necessary part of talent management. "When you have dead wood, it is addition by subtraction," he said. If the bank continues to carry underperforming employees "other employees will ask themselves why they would bust their butt when someone can get away with being dead wood," Musso said.

The future of the branch

Bank of America has made two big mistakes, Musso said. Its first mistake was trying to sell insurance, trust and other banking products with one staff person at a branch. "If they had asked their customers what they wanted, they would have found that people want insurance expertise, trust expertise and banking expertise. Customers did not believe that one person can be an expert in all those areas," he said.

Bank of America is abandoning rural America and retail banking, Musso said. "That is a huge mistake," he said. "They are abandoning traditional consumers in favor of businesses and they are totally missing the boat again."

Bank of America's decision to close branches is a mistake because brick and mortar must remain a core part of product delivery. "We will not be replaced by the all-digital banking technology," he said. "Banking products will be delivered via brick and mortar, via bank personnel and via digital channels."

Hurricane Sandy illustrates well the reason brick and mortar will remain essential, even as digital banking becomes popular, Musso said. "There was no electricity and no internet; digital banking did not work," he said. "The customer needed the ability to do it the old fashioned way."

Branches show their value in a natural disaster, Musso said, because without them customers cannot access their money. "Customers see that they might want to have an account with a local bank with a brick and mortar presence just in case," he said.

Still, banks do need to innovate on the traditional brick and mortar model, Musso said. He suggested ATMs as a starting place. "When I walk up to an ITM in Europe, I can buy train tickets, I can buy plane tickets and I can talk to someone via video call," he said. "Here in the United States we think of an ATM as a transactional tool. It's not a transactional tool. It is an access device; we need to adopt it as an access device."

The goal for banks innovating on their delivery model is to meet customers' ever increasing expectations, said Troy Case, CEO of Case Financial, Anoka, Minn. Case participated in a panel presentation on technology. "Consumers are used to services and goods when they want it, where they want it and how they want it," he said. "Many would open an account with Google, Apple, Walmart or Amazon in a heartbeat. That's what would keep me up at night if I were a banker. These technology companies could steal future customers by offering banking services when customers want it, where they want

Bankers encouraged,
Continued on page 8

Directors' pay and training should keep pace with their responsibilities

Banks need to have higher expectations for directors but they also need to pay them and train them more, said Don Musso, president of FinPro, Inc., of Gladstone, N.J. "Self-assess your board," he said. "What is it that they bring? Is the director a capital provider? Do they bring a specific niche? Are they a financial expert? If you self-assess, you'll find that half your board members do not cut it and you will need to honestly take a look at board succession.

"Where I am a large shareholder, I will not let someone on the board unless they own stock," Musso continued. "If you do not have skin in the game, you will not do what's best for the shareholders."

Banks need to push for as many independent directors as possible. "The rules say we need two independent directors. The regulators want three quarters of all directors to be independent," he said. "Most small shops don't meet that test because it is pretty hard to get that in small town America. We have to do the best we can."

Because of the limited availability of directors in rural America, Musso said he does not suggest having the same person as chairman, CEO and president. "If you are chairman, CEO and president, you need independent directors," he said.

Musso, who is a founder/shareholder in six community banks in Pennsylvania and New York, said he sets high standards for his boards because they must provide active oversight for the bank. Part of active oversight is providing 'credible challenge' in the board room. "If every vote is unanimous and your meeting minutes don't show any discussion about sensitive topics, then credible challenge isn't taking place," he said, alluding to the recent wave of FDIC lawsuits against bank directors. "You need to have battles over certain topics. It is good for corporate governance."

With the heightened expectation for boards, banks need to pay directors more, Musso said. "Our board meetings will start at 8 a.m. and, with committees and discussions after the board meeting, the day will run until 8 p.m.," he said. "It is a long day. We should pay more."

Increased director training also is necessary, Musso said. "Webinars are necessary but retention is about 30 percent," he said. "We have found real director training needs to be specific to your organization. Use your specific bank and retention will double. Train them with your risk assessment, your call report and your loan policy. Still, send them to conferences and sign them up for webinars for a broader perspective." ■

Bankers encouraged,
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it, and how they want it."

Banking hours are one place banks could innovate, Case said. "Two-thirds of transactions are outside of the 8 a.m. to 5 p.m. time slot," he said.

On average, banks spend 6.2 percent of their revenue on IT, Case said. "About 60 percent is dedicated to running the business, about 24 percent is to grow the business and 16 percent is used to innovate," he said. "I would want to turn up the innovation budget a little more to compete."

Investing in expanded delivery channels will be key to growing a customer base, said George Gervase, regional sales manager at Modern Banking Systems, Ralston, Neb., who also presented on the technology panel.

"Your opportunity to gain a new client is limited," Gervase said. "The average client only shops every 8.5 years. You do need to press forward with technology because once customers are gone, it is really tough to get them back," he said.

Banking the next generation

Millennials are taking primacy as borrowers and retail customers, Musso said. "We could spend a lot of time arguing about whether or not millennials are good customers but it doesn't matter," he said. "In five years millennials are the customer; we have got to get them and get them now."

Millennials will be loan customers while boomers will add more to the deposit base, Musso said. "Boomers are aging; they are all going into retirement and then they become savers," he said. "My wife and I are saving for retirement. We are not borrowing. We are trust and investment customer candidates.

"My four kids," he continued, "are in debt to their eyeballs. You name it and they have debt on it. They are great debt customers but they have no savings. They are not a source of savings accounts for a bank. A family will cover the whole spectrum needed in banking but no segment will give you all you need. We have to figure out how to segment our customer base and serve each segment."

With today's cyber threats, banks can attract millennial customers with low-tech products like a passbook savings account, Musso said. "Beyond a doubt, when we have talked to millennials, they tell us the thing that scares them most is having their account wiped out in a hack," he said. "Go to them and say, 'it's fine that you have your account with ING. But when it gets hacked, you will have nothing. If you have an account with us on a passbook, you know it will be safe because there is no way to hack it.'

"You will be amazed at how much business will come in the door," Musso continued. "At our banks, it is the fastest growing account that we have; it is the account to tie millennials up. The core account used to be the checking account; for millennials it will be the safe savings account."

No help from U.S. economy

Banks will need to find ways to grow in the midst of continued economic headwinds, Musso said. Banks can expect to remain "stuck in this economic

Bankers must demand relief

The fate of the banking industry and that of federal regulators are intertwined, said Don Musso, president of FinPro, Inc., of Gladstone, N.J. "We have to get militant and tell regulatory agencies that we want to remain relevant," he said.

Dodd-Frank is adding to the regulatory compliance burden, Musso said. So far in 2015, regulators have issued 860 notices, 140 final rules and 126 proposed rules, he said. "And there are still some 400 to 500 rules to be written," he said. "Survey after survey tells us that the No. 1 challenge we as bankers face is cost of compliance. [Banking] is a changing game."

Musso encouraged bankers to call for another increase in the threshold for the definition of a small bank holding company. Earlier this year, the Federal Reserve increased the threshold to $1 billion from $500 million. The change, which benefitted some 600 holding companies across the country, also allowed savings and loan association holding companies to be classified as small holding companies. It also allowed them to borrow an amount equal to their equity. Companies often down-stream the funds to their subsidiary bank to fund loans, acquisitions or for other needs, Musso said.

The Fed should have made the threshold $10 billion, Musso said. "At $10 billion, community banks wouldn't be dependent upon private equity or joint ventures or the kind of capital that can come in and forces us to turn our banks over," he said. "We would have much more control over our destiny."

Musso also said regulators need more feedback from bankers on wholesale deposits. "Brokered deposits are the best kind of deposits not the worst." he said. "I cannot get regulators to understand that." ■

Regulators urge caution with third parties, advise proactive vendor management

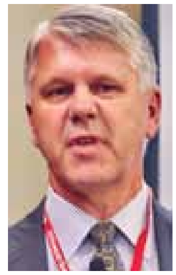
Banks are required by regulators to manage risk from third-party vendors. An engaged approach to vendor management, however, can lead to benefits beyond simple compliance, said Neil Falken, principal at CliftonLarsonAllen, Minneapolis.

Falken and CliftonLarsonAllen colleague Joshua Juergensen opened the Bank Holding Company Association's Fall Seminar on Oct. 5 with a presentation on vendor management.

"With margins where they are, with few fee income opportunities, where is the income growth going to come from?" Falken said. "It is going to be about efficiencies and cost savings."

Cost savings and efficiencies come from consolidating vendors, Falken said. "If you spread things out over more vendors, they will each take their profit out," he said. "If you go to a vendor and ask them 'if I give you three of these services will you give me a better price?' I guarantee you, you will get a lower price."

Banks should review contracts to ensure they are receiving the services for which they pay, Falken said. "It's the same kind of things as your telephone bill; you don't want to be paying for lines you don't have anymore," he said.


Falken


Juergensen

Falken said some banks find better control over vendor contracts and pricing by establishing a committee to handle new contracts and renewals. "It's the committee that makes the decision to renew or to go with a vendor, rather than the different departments of the bank," he said. "The committee reviews contracts six months in advance of renewal. They gather all the documents, perform due diligence and decide how to proceed," he said.

As banks consider new contracts or contract renewals, Juergensen recommended considering a contract's flexibility in addition to price. "Many times banks will look for the best terms they can get and will sacrifice on terms just to have the best price," he said. "Price isn't always the best thing when it comes to a contract. Flexibility can be an important part as well."

When a bank plans to seek an acquirer, it should require a termination clause in its key vendor contracts, Juergensen said. "If you are selling, you want a release in the contract for the acquirer," he said.

Bankers should also ask for a termination clause in the case that the vendor doesn't meet the contract's terms, Juergensen said. "You want a clause that allows you to get out if they are not holding up their end of the deal," he said.

In terms of examinations, Juergensen said regulators want the bank to have a person responsible for vendor management.

Regulators also want management to know where and how the bank's data is stored, Juergensen said. "If you are outsourcing data storage to a third party, that vendor can have a clause that says they can store it using another company," he said. "It could be that the storage is with a subcontractor who subcontracts somewhere else. The data could be stored in east Russia. You just need to know where your data is at."

In addition to verifying the financial viability of a vendor, banks should know a vendor's reliance on key personnel, Juergensen said. "If a small vendor's operation is contingent on one person or a few people, you need a contingency plan in place," he said. "It is not a bad thing to work with a small provider by any means, but you need to make sure you have the proper risk assessment and backup plan in place in case they lose those key people," he said. ■

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quagmire" of slow economic growth and low rates for the near future, he said.

Former Minneapolis Federal Reserve Economist Toby Madden, who also presented at the Fall Seminar, echoed Musso. Madden predicted GDP growth will be around 1.98 percent this year. In the coming year, there is a 70 percent chance the U.S. economy will grow at a rate between -1 percent and 4 percent GDP growth, he said, with a 1-in-20 chance for a terrible recession and a 1-in-20 chance for huge expansion.

While Madden's near-term expectation is for continued expansion, "the mid-term outlook could be scary," he said. "The business cycle is not dead. We have been in a long expansion, but we are headed for a recession."

In the mid-term, the economy should grow but there are risks, Madden said. "We have slow labor force growth, we have big unpaid promises to the aging population via Social Security and Medicaid/Medicare, and the interest on government debt is $400 billion per year with historic low interest rates," he said. "These risks could cause slower growth or recession."

Bankers shouldn't get pessimistic about the future, Madden said. "Bad stuff can always happen," he said. "If you know it can happen, you can be prepared for the economic risks that we know are coming." ■

Scenes from the BHCA Fall Seminar

2015

Marketplace lenders: More friend than foe

Pundits have called marketplace lenders the "Uberization" of banking, alluding to the disruption of the taxicab industry by an app-based service known as Uber. The comparison is a false one, according to Wayne Gore, director of membership for Alliance Partners, Chevy Chase, Md., a firm that offers community banks a platform to partner with marketplace lenders. Gore spoke in a breakout session at the Bank Holding Company Association's Fall Seminar on Oct. 6.

The U.S. Treasury has defined marketplace lenders as the segment of the financial services industry that uses investment capital and data-driven, online platforms to lend, directly or indirectly, to businesses and consumers, Gore said.

The challenges for marketplace lenders are complementary to the challenges faced by community banks, Gore said.

Marketplace lenders focus on unsecured consumer loans, student loan refinancing, small business lending and nonconforming mortgages, said James Sheriff of Reinhart Boerner Van Deuren, Milwaukee, who also presented during the session. "In lending sectors where community banks dominate, marketplace lenders don't compete," Sheriff said. "C&I, CRE, conforming mortgages, credit cards, auto loans and government subsidized credit have very few marketplace lenders."

Marketplace lenders' biggest challenge is acquiring new customers, Gore said. "It is very difficult for them to build customer relationships, even given their tremendous scale and technology investment," he said. "They have realized they need community banks to survive because that is where the customer relationships really are."

Community banks have all but exited products like consumer loans, Gore said. "If you look at the early 1990s, community banks had 80 percent of consumer loans," he said. "They were heavily in the consumer lending space while big banks just were 20 percent of the market. In 2014, the big banks dominated consumer lending."

Customers' move to larger banks was simple economics, Gore said. "When a customer came to your bank and asked for an unsecured consumer loan, what did you tell them?" Gore asked. "We said, no," breakout attendees replied. "Did they go home and stop needing that money? No, they went to a larger bank that offered the product," Gore said.

Thus, a partnership between a marketplace lender and a community bank would be a win-win, Gore said. The marketplace lender could gain access to customers while the community bank gains re-entrance to products long dominated by the nation's largest banks, he said.

On regulation of marketplace lenders, Sheriff said the assumption that they are not regulated is false. "They have to comply with truth in lending regulations," he said. "They also are examined and regulated by the states. It is a patchwork quilt of regulation, because it varies by state, but they are regulated."

Gore said that even if they were regulated, it would not slow the growth of marketplace lenders. "Regulation will not create a level playing field," he said. For most marketplace lenders, operational expense is between 3 percent and 8 percent lower than banks, Gore said. "Even with new regulatory weight, they will still be a lot more profitable in terms of margins," he said.

More regulation or not, marketplace lenders are expanding quickly, Sheriff said. "There are more than 700 marketplace lenders in the United States," he said. "Morgan Stanley estimates that by 2020, if their growth trends continue, they could have as much as 40 percent of the nonsubsidized small-business-lending market and 50 percent of consumer loans."

Marketplace lenders are not the enemy, Gore said. "They are a way for community banks to access technology platforms that they could never afford," he said. "They are a way for community banks to serve customers they would otherwise turn away." ■

New to BHCA

The Bank Holding Company Association welcomes members new to its association:

Holding Companies

McLean Bank Holding Company
Garrison, N.D.
Jan Stroup
President

First National Bank in Sioux Falls
Sioux Falls, S.D.
Troy Vander Stowe
Correspondent Banking Manager

Associate Members

LeaderOne Financial
Vaughn Kavlie, Branch Manager
Peter Haugen, Account Exec./Mortgage Planner
Dennis Eroman, Business Development
Minneapolis, Minn.
Partnering with community banks to provide long-term lending solutions for current and future customers.

Strategic Resource Management
Ben Mrva, Executive Vice President
Memphis, Tenn.
SRM employs a proven spectrum of sourcing, procurement and revenue-enhancement services designed to help reduce operating expenses and optimize efficiency. Specializes in identifying opportunities for growth or savings, aligning expenses with industry benchmarks and fostering supplier partnerships with a focus on quality and long-term stability.

Federal Reserve permits holding companies to engage in some non-banking activities (part 2)

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

My article in the Summer 2015 issue of *Bank Owner* discussed some of the permissible nonbanking activities in which bank holding companies can engage, directly or indirectly through a subsidiary, without the Federal Reserve's prior approval. In this article, I will discuss nonbanking activities generally requiring prior approval. Regulation Y contains a list of such activities (see 12 CFR 225.28(b)). The more common of these activities include making loans, selling insurance, providing data processing services to other banks, and investing in community development projects. BHCs must submit filings to the Federal Reserve for authority to engage in these activities. Alternatively, they may elect to become financial holding companies. I will note considerations BHC management should keep in mind about the filing process and limitations on activities. I will also briefly discuss FHCs.

Generally, a BHC proposing to commence a permissible nonbanking activity directly or through a subsidiary (i.e., *de novo*) or acquire a company engaged in the activity must file a notice with the local Reserve Bank for prior approval of the acquisition. However, a BHC proposing to engage *de novo* in such an activity may be able to provide an after-the-fact notice within 10 business days of starting the activity if the BHC and its subsidiary banks meet certain criteria described in Regulation Y. To qualify for the "post-notice" process, the BHC must be well-capitalized, well-managed and not subject to a formal supervisory action within the preceding 12 months.

The Federal Reserve considers a number of factors when reviewing nonbanking activity proposals, including whether the BHC's performance of the proposed activity will result in public benefits, such as increased competition in the market(s) in which the BHC will conduct the activity. The Federal Reserve also analyzes the financial and managerial resources of the BHC organization and the effect of the proposal on those resources. Another consideration is the size/significance of the nonbank activity relative to the size of the BHC. A small BHC proposing to engage in significant nonbank activities would need to demonstrate compliance with consolidated capital requirements at consummation and on an ongoing basis as part of the application.

Limitations on these activities frequently apply, and BHCs should consult with their appropriate Reserve Bank before submitting a filing if they have questions about whether their nonbanking proposals raise potential permissibility issues. For example, BHCs seeking to sell insurance must comply with limitations pertaining to the types of insurance they can offer (e.g., credit-related life insurance) or, if they intend to offer a wide variety of insurance products, they are limited as to where they can sell the insurance. For example, BHCs intending to offer a wide variety of insurance products are limited to doing so in communities in which their organization has banking offices and which have populations of less than 5,000.

BHCs may also engage in permissible nonbanking activities by electing to become an FHC. FHCs can engage in a broader range of nonbanking activities, and they generally do not have to obtain prior approval before engaging in them. They must report these activities by submitting an FR Y-10 to their appropriate Reserve Bank when they begin conducting them. However, FHCs must comply with requirements to be "well capitalized" and "well managed" on an ongoing basis, at both the parent company and subsidiary depository institution (DI) level, in order to maintain their FHC status.

One example of the broader nonbanking authority FHCs have is that FHCs do not have to observe the limits on the types of insurance they can sell or the size of the communities in which they sell them, unlike BHCs. FHCs in the Ninth District have most commonly used their expanded authority to sell insurance in communities with a population greater than 5,000.

Regardless of how BHCs choose to engage in nonbanking activities, they must reimburse their subsidiary DIs for any expenses that the DIs incur on their behalf in association with the activities.

Fed Notes, *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.

▷ Auburn State Bank, Auburn, Neb., authorized to merge with The Carson National Bank of Auburn, Neb., and thereby establish a branch.

▷ Banner County Ban Corporation ESOP and Trust, Harrisburg, Neb., and Banner County Ban Corporation authorized to acquire Oregon Trail Bank, Guernsey, Wyo.

▷ First State Bancshares, Inc., Farmington, Mo., authorized to acquire Central Bank, Lebanon, Mo.

▷ Hometown Bancorp, Ltd., Fond Du Lac, Wis., authorized to acquire Farmers Exchange Bank, Neshkoro, Wis.

▷ Park Financial Group, Inc., Minneapolis, authorized to become a bank holding company by acquiring Park State Bank, Duluth, Minn.

▷ First Co Bancorp, Inc., Collinsville, Ill., has elected to become a financial holding company.

▷ West Town Bancorp, Inc., Raleigh, N.C., filed to acquire West Town Bank and Trust, Cicero, Ill.

▷ First State Associates, Inc., Hawarden, Iowa, authorized to acquire Miner County Bank, Howard, S.D.

▷ Kandi Bancshares, Inc., New London, Minn., has elected to become a financial holding company.

▷ Marian Dahlgren, and Lee Dahlgren, both of Vergas, Minn., individually filed to acquire 25 percent or more of Vergas Bancorporation, Inc., Vergas. In addition, the Marian Dahlgren Trust, Vergas, filed to acquire Vergas Bancorp shares and join the Dahlgren Family group that controls 25 percent or more of Vergas Bancorp, and thereby gain control of Vergas State Bank.

▷ Albany Bancshares, Inc., Albany, Ill., filed to acquire Port Byron State Bank, Port Byron, Ill.

▷ First York Ban Corp., York, Neb., authorized to indirectly acquire Guide Rock State Bank, Guide Rock, Neb., and for First York's subsidiary, Cornerstone Bank, York, to merge with Guide Rock State Bank and thereby establish branches.

▷ Heartland Bancorp, Inc., Bloomington, Ill., authorized to acquire National Bancorp, Inc., Schaumburg, Ill., and thereby acquire American Midwest Bank, Sycamore, Ill.

▷ Otto Bremer Foundation, St. Paul, Minn., and Bremer Financial Corporation authorized to acquire the insurance agency business of Pendle-Hansen-Bagne, Inc., Rochester, Minn., through Bremer Insurance Agencies, Inc., a subsidiary of Bremer Financial Corporation. Also authorized to acquire the insurance agency business of Nonprofit Insurance Advisors, St. Paul, Minn.

▷ Change in Control notice filed by James L. Williams III, Casselton, N.D., to acquire 25 percent or more of Goose River Holding Company, Mayville, N.D. and thereby gain control of The Goose River Bank, Mayville.

▷ Portage County Bancshares, Inc., Almond, Wis., authorized to acquire Bancroft State Bank, Bancroft, Wis., which will subsequently merge into Portage County Bank, Almond.

▷ Washington State Bank, Washington, Iowa authorized to purchase a branch of Columbus Junction State Bank, Columbus Junction, Iowa.

▷ GNB Bank, Grundy Center, Iowa, filed to merge with its sister bank, Ackley State Bank, Ackley, Iowa. As a result of the merger, all locations of Ackley State Bank will become branches of GNB Bank.

▷ Charter West National Bank, West Point, Neb., authorized to retain membership in the Federal Reserve System on conversion to a state-chartered institution.

▷ Fort Madison Financial Company, Fort Madison, Iowa, filed to acquire Keokuk Savings Bank & Trust Company, Keokuk, Iowa.

▷ Change in Control Notice filed by Paul Bennett Lewis and Russell Craig Flom as co-trustees of the "Grandchildren's Fidelity Trust," to acquire 25 percent or more of the shares of Fidelity Holding Company, Minnetonka, Minn., and thereby gain control of Fidelity Bank, Edina, Minn.

▷ Change in Control Notice filed by Michael J. Elsenpeter, Walker, Minn., to individually acquire control of Walker Ban Co, Walker, Minn., and thereby gain control of First National Bank North, Walker, Minn.

▷ First Dakota Financial Corporation, Yankton, S.D. authorized to acquire Dakota State Bank, Blunt.

▷ Pinnacle Bancorp, Inc., Central City, Neb., authorized to acquire Woodhaven National Bank, Fort Worth, Texas.

▷ Community Financial Corp., Edgewood, Iowa, filed to acquire Linn County State Bank, Coggon, Iowa.

▷ Darwin Bancshares, Inc., Darwin, Minn., filed to merge with Winthrop Bancshares, Inc., Winthrop, Minn., and thereby indirectly acquire Winthrop State Bank.

▷ Change in Control Notice filed by James Colbert, Chippewa Falls, Wis., Bradford J. Colbert III, Plymouth, Minn., and others to acquire and retain control of NW Bancshares, Inc., Chippewa Falls, and thereby acquire and retain control of The Northwestern Bank, Chippewa Falls, Wis.

▷ First Midwest Bancorp, Inc., Itasca, Ill., authorized to acquire Peoples Bancorp, Inc., Arlington Heights, Ill., and thereby acquire The Peoples Bank of Arlington Heights; and for First Midwest Bank, Itasca, to merge with TPB and to establish branches.

▷ Change in Control Notice filed by Robert W. Frei to acquire 10 percent or more of Commercial Holding Company, Wagner, S.D., and join the Frei Family Group that controls 25 percent or more of Commercial Holding Company, and thereby indirectly controls Commercial State Bank, Wagner.

▷ Change in Control notice filed by Colter Cumin, Deer Lodge, Mont., to acquire 25 percent or more of First Security Group, Deer Lodge, and thereby indirectly gain control of First Security Bank Deer Lodge.

▷ Baylake Corp., Sturgeon Bay, Wis., and Baylake Bank authorized to merge with NEW Bancshares, Inc., Kewaunee, Wis., and thereby acquire its subsidiary bank, Union State Bank; and for Baylake Bank to merge with Union State Bank, Kewaunee, and thereby establish branches.

▷ First Citizens Bank, Mason City, Iowa, filed to remain a member of the Federal Reserve System upon its conversion from a national bank to a state chartered bank.

▷ Tradition Bancshares, Inc., Edina, Minn., filed to acquire 22 percent of First Lawyers Trust Company, Rapid City, S.D.

▷ Liberty Financial Services of St. Cloud, Inc., Saint Cloud, Minn., authorized to: 1) become a bank holding company on the conversion of its subsidiary, Liberty Savings Bank, FSB, Saint Cloud, from a federal savings bank to a state-chartered bank (to be known as Liberty Bank Minnesota); 2) election to become a financial holding company; and 3) for Liberty Savings Bank to become a member of the Federal Reserve System.

The BHCA takes to the road March 15, 2016 for a "Mini" Seminar

Attend this unique one-day event at the Honey Creek Resort, Moravia, Iowa

Speakers include:

- ✓ **Don Johnson** and **Rhea Hemish** from Eide Bailly
  - ***"Strategies for Ownership Succession Planning: How to Keep Ownership in the Family or Community"***
- ✓ **Patrick Kennedy**, president of the Subchapter S Bank Association
  - ***"Make the Most of Your S Selection"***
- ✓ **Beau Hurtig**, Fredrikson & Byron law firm
  - ***"A Look at the Community Bank M&A Landscape"***

Special Lunch Feature:

- ✓ **Stevie Ray**

Stevie Ray's Improv Company

"Leadership at Every Level"

Stevie Ray and his certified trainers have conducted workshops for more than 1,000 clients, from Fortune 500 companies to small organizations. Ray's nationally syndicated business column has been appearing in publications since 1997. Ray opened a comedy theatre in Minneapolis in 1989 and eventually opened The School of Improv, which operates under the philosophy that everyone should have the chance to learn the skills of improvisation for the stage or personal growth. The school helps people from all walks of life.

Lunch is joint event with Heritage Clubs International, the trade group for bank club directors.

Registration
9:30 a.m. - 10:00 a.m.
Speakers
10:00 a.m. to noon
Luncheon
noon - 2:00 p.m.
Speakers
2:00 p.m. - 3:00 p.m.

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Name: ______________________________

Holding Company/Bank: ______________________________

Address: ______________________________

City: ____________________ State: ______ Zip: __________

Phone: ______________________________

The Bank Holding Company Association, 7400 Metro Blvd., Suite 217, Minneapolis, MN 55439

BHCA
The Bank Holding Company Association
Tom Bengtson
Managing Director
7400 Metro Blvd., No. 217
Minneapolis, MN 55439
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www.theBHCA.org

ILLINOIS BANK HOLDING COMPANIES: Part 2 *(See the Autumn edition of Bank Owner magazine for Part 1 of this list.)*

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
190.PGB HOLDINGS, INC., CHICAGO	**161,354**	
PACIFIC GLOBAL BANK, CHICAGO		160,705
191.EAST DUBUQUE BANCSHARES, INC., E. DUBUQUE	**160,969**	
EAST DUBUQUE SAVINGS BAN, DUBUQUE		160,820
192.SBW BANCSHARES, INC., WATERLOO	**159,042**	
STATE BANK OF WATERLOO		144,963
193.RARITAN STATE BANCORP, INC., RARITAN	**158,137**	
RARITAN STATE BANK, RARITAN		157,296
194.SCOTT BANCSHARES, INC., BETHANY	**158,052**	
SCOTT STATE BANK, BETHANY		158,052
195.FORREST BANCSHARES, INC., FORREST	**156,459**	
FIRST STATE BANK OF FORREST		151,586
196.SHANNON BANCORP, INC., SHANNON	**156,109**	
FIRST STATE BANK SHANNON-POLO, SHANNON		156,098
197.GALVA INVESTMENT, INC., GALVA	**156,084**	
COMMUNITY STATE BANK, GALVA		155,897
198.FIRST MCHENRY CORP., MCHENRY	**155,632**	
FIRST NATIONAL BANK OF MCHENRY		155,559
199.COMMUNITY BANCSHARES OF ELMHURST, INC.	**154,897**	
COMMUNITY BANK OF ELMHURST		154,897
200.UNION BANCSHARES, MHC, FREEPORT	**153,588**	
UNION SAVINGS BANK, FREEPORT		153,588
201.1ST BROOKFIELD, INC., BROOKFIELD	**151,441**	
FIRST NATIONAL BANK OF BROOKFIELD		149,485
202.NBP FINANCIAL SERVICES, INC., PETERSBURG	**150,016**	
NATIONAL BANK OF PETERSBURG		150,016
203.QUINCY BANCSHARES, INC., QUINCY	**148,690**	
BANK OF QUINCY		148,690
204.OMNI BANCORP, INC., EFFINGHAM	**147,082**	
CROSSROADS BANK, EFFINGHAM		147,081
205.FIRST COMMUNITY BANCORP, INC., BEECHER	**145,058**	
FIRST COMMUNITY BANK AND TRUST, BEECHER		143,919
206.FIRST NATIONAL BANCORP. IN CARLYLE, INC.	**144,237**	
FIRST NATIONAL BANK IN CARLYLE		144,227
207.FIRST NOKOMIS BANCORP, INC., NOKOMIS	**144,132**	
FIRST NATIONAL BANK OF NOKOMIS		144,132
208.AGRICULTURAL BANKING CORP., PAXTON	**143,929**	
CISSNA PARK STATE BANK, CISSNA PARK		61,030
FIRST NATIONAL BANK IN PAXTON		79,388
209.MANHATTAN BANCSHARES, INC., MANHATTAN	**143,603**	
FIRST BANK OF MANHATTAN		143,485
210.RAYMOND BANCORP, INC., RAYMOND	**143,031**	
FIRST NATIONAL BANK OF RAYMOND		143,031
211.JSB BANCORP, INC., JERSEYVILLE	**142,740**	
JERSEY STATE BANK, JERSEYVILLE		142,318
212.GIFFORD BANCORP, INC., GIFFORD	**141,020**	
GIFFORD STATE BANK, GIFFORD		141,020
213.FARMERS STATE BANCORP., INC., HOFFMAN	**139,581**	
FARMERS STATE BANK OF HOFFMAN		139,581
214.AMERICAN HRTLND BNCSHRS, INC., SUGAR GRV.	**138,994**	
AMERICAN HEARTLAND BANK AND TRUST, SUGAR GROVE		136,406
215.FARMINGTON BANCORP, INC., FARMINGTON	**136,982**	
BANK OF FARMINGTON		136,982
216.HERSHARE FINANCIAL CORP., HERSCHER	**135,613**	
STATE BANK OF HERSCHER		135,613
217.GOLDEN EAGLE BANCORP, INC., WOODSTOCK	**134,496**	
GOLDEN EAGLE COMMUNITY BANK, WOODSTOCK		133,952
218.PUTNAM COUNTY BANCORP, INC., HENNEPIN	**134,169**	
NORTH CENTRAL BANK, HENNEPIN		134,169
219.SCHAUMBURG BNCSHRE, INC., SCHAUMBURG	**134,158**	
HERITAGE BANK OF SCHAUMBURG		134,158
220.FIRST ALGONQUIN CO., ALGONQUIN	**131,137**	
ALGONQUIN STATE BANK, N.A., ALGONQUIN		131,132
221.WB BANCORP, INC., NEW BERLIN	**130,674**	
WARREN-BOYNTON STATE BANK, NEW BERLIN		130,560
222.ALPHA BANCO, INC., ALPHA	**129,228**	
FARMERS STATE BANK OF WESTERN ILLINOIS, ALPHA		129,080

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
223.ROYAL FINANCIAL, INC., CHICAGO	**128,043**	
ROYAL SAVINGS BANK, CHICAGO		125,912
224.BEMENT BANCSHARES, INC., BEMENT	**126,744**	
STATE BANK OF BEMENT, BEMENT		85,047
STATE BANK OF CERRO GORDO		25,740
225.CLAY CITY BANK SHARES, INC., CLAY CITY	**125,507**	
CLAY CITY BANKING CO., CLAY CITY		125,498
226.PIPER BANKSHARES, INC., PIPER CITY	**125,414**	
VERMILION VALLEY BANK, PIPER CITY		125,400
227.ATHENS BANCORP, INC., ATHENS	**124,738**	
ATHENS STATE BANK, ATHENS		124,738
228.BELLEVILLE BANCORP, INC., BELLEVILLE	**124,213**	
BANK OF BELLEVILLE		124,178
FIRST DWIGHT CORP., DWIGHT		122,725
FIRST NATIONAL BANK OF DWIGHT		122,720
229.LSBANCORP, INC., LASALLE	**122,635**	
LASALLE STATE BANK, LASALLE		122,635
230.WHITTINGTON BANCORP, INC., BENTON	**121,487**	
STATE BANK OF WHITTINGTON, BENTON		121,487
231.ARTHUR BANCSHARES CORP., ARTHUR	**120,356**	
STATE BANK OF ARTHUR		120,356
232.CLAYTON BANCSHARES, INC., PLEASANT HILL	**118,788**	
CENTRAL STATE BANK, CLAYTON		118,731
233.BURLING BANCORP, INC., CHICAGO	**118,245**	
BURLING BANK, CHICAGO		118,245
234.BRICKYARD BANCORP, INC., LINCOLNWOOD	**118,243**	
BRICKYARD BANK, LINCOLNWOOD		117,693
235.ALLIED FIRST BANCORP, INC., OSWEGO	**117,678**	
ALLIED FIRST BANK, SB, OSWEGO		117,266
236.FM BANCORP, INC., PAXTON	**113,652**	
FARMERS-MERCHANTS NATIONAL BANK OF PAXTON		113,646
237.MASCOUTEN BANCORP, INC. , BEARDSTOWN	**112,977**	
FIRST NATIONAL BANK OF BEARDSTOWN		112,977
238.MURPHY-WALL BANCORP, INC., PINCKNEYVILLE	**112,929**	
MURPHY-WALL STATE BANK AND TRUST CO., PINCKNEYVILLE		112,527
239.FIRST CLINTON BANCORP., INC., CLINTON	**111,704**	
FIRST NATIONAL BANK AND TRUST CO., CLINTON		111,703
240.TREMONT BANCORP, INC., TREMONT	**111,611**	
FIRST NATIONAL BANK IN TREMONT		111,513
241.ISB BANCORP, INC., TONICA	**110,369**	
ILLINI STATE BANK, OGLESBY		110,152
242.WSB FINANCIAL, LTD, WILLIAMSVILLE	**109,411**	
WILLIAMSVILLE STATE BANK AND TRUST, WILLIAMSVILLE		109,280
243.FIRST MONTGOMERY BANCORP, INC., LITCHFIELD	**109,235**	
FIRST NATIONAL BANK OF LITCHFIELD		109,235
244.MILLEDGEVILLE BANCORP, INC., MILLEDGEVILLE	**108,723**	
MILLEDGEVILLE STATE BANK, MILLEDGEVILLE		108,723
245.PEOPLES BANCORP, INC., ARLINGTON HEIGHTS	**108,305**	
PEOPLES' BANK OF ARLINGTON HEIGHTS		107,879
246.KAMPSVILLE BANCSHARES INC., KAMPSVILLE	**107,160**	
BANK OF KAMPSVILLE, KAMPSVILLE		106,999
247.HENRY STATE BANCORP, INC., HENRY	**107,067**	
HENRY STATE BANK, HENRY		107,067
248.FISHER BANCORP, INC., FISHER	**106,056**	
FISHER NATIONAL BANK, FISHER		106,058
249.SAVANNA-THOMSON INVESTMENT, INC., SAVANNA	**105,749**	
SAVANNA-THOMSON STATE BANK, THOMSON		105,135
250.PERRY COUNTY BANCORP INC., DU QUOIN	**105,626**	
DU QUOIN STATE BANK, DU QUOIN		105,626
251.CAMPBELL HILL BNCSHRS, INC., CAMPBELL HILL	**105,551**	
FIRST STATE BANK OF CAMPBELL HILL		105,527
252.ISB BANCSHARES, INC., LEWISTOWN	**102,509**	
IPAVA STATE BANK, IPAVA		102,509
253.MARENGO BANCSHARES, INC., MARENGO	**101,682**	
PRAIRIE COMMUNITY BANK, MARENGO		101,688
254.PREMIER COMMERCE BANCORP, INC., WHEATON	**100,099**	
GRAND RIDGE NATIONAL BANK, GRAND RIDGE		100,099

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

ILLINOIS BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
255.GOODFIELD FINANCIAL CORP., GOODFIELD	99,884	
GOODFIELD STATE BANK, GOODFIELD		99,884
256.COMMUNITY BANCSHARES, INC., IRVINGTON	99,559	
COMMUNITY TRUST BANK, IRVINGTON		98,783
257.FIRST EQUITY CORP., SKOKIE	99,274	
1ST EQUITY BANK, SKOKIE		99,264
258.RUSHVILLE BANCSHARES, INC., RUSHVILLE	97,425	
RUSHVILLE STATE BANK, RUSHVILLE		97,424
259.FIRST MAZON BANCORP, INC., MAZON	96,232	
MAZON STATE BANK, MAZON		88,733
260.EDGEBROOK BANCORP, INC., CHICAGO	95,169	
EDGEBROOK BANK, CHICAGO		95,169
261.LANARK BANCSHARES, INC., LANARK	92,935	
EXCHANGE STATE BANK, LANARK		92,821
262.GENEVA BANCSHARES, INC., GENEVA	92,771	
STATE BANK OF GENEVA		85,065
263.DURAND BANCORP, INC., DURAND	92,650	
DURAND STATE BANK, DURAND		92,650
264.CHERRY BANCORP., INC., CHERRY	91,803	
STATE BANK OF CHERRY		91,799
265.GATEWAY BANC CORP., ROSCOE	90,629	
GATEWAY COMMUNITY BANK, ROSCOE		90,570
266.FBL BANCSHARES, INC., LIBERTY	89,880	
FARMERS BANK OF LIBERTY		89,781
267.S & H HOLDINGS, INC., IROQUOIS	88,585	
IROQUOIS FARMERS STATE BANK, IROQUOIS		88,586
268.CHESTER BANCORP, INC., CHESTER	87,665	
CHESTER NATIONAL BANK, CHESTER		87,286
269.ROCHESTER STATE BNKSHRS, INC., ROCHESTER	87,430	
ROCHESTER STATE BANK, ROCHESTER		87,213
270.MT. STERLING BANCORP, INC., MT. STERLING	87,118	
FARMERS STATE BANK & TRUST CO., MOUNT STERLING		86,992
271.ADMIRAL FAMILY BANKS, INC., ALSIP	87,056	
FEDERATED BANK, ONARGA		81,818
272.YANKEE RIDGE, INC., ALLERTON	86,931	
PHILO EXCHANGE BANK, PHILO		86,931
273.FIRST PORT BYRON BANCORP, INC., PORT BYRON	82,452	
PORT BYRON STATE BANK, PORT BYRON		74,791
274.GRANVILLE BANCSHARES, INC., GRANVILLE	82,434	
GRANVILLE NATIONAL BANK, GRANVILLE		52,275
SHERIDAN STATE BANK, SHERIDAN		30,143
275.TNB BANCORP, INC., TUSCOLA	82,352	
TUSCOLA NATIONAL BANK, TUSCOLA		82,429
276.FIRST PERRY BANCORP, INC., PINCKNEYVILLE	81,029	
FIRST NATIONAL BANK IN PINCKNEYVILLE		80,135
277.VILLAGE BANCSHARES, INC., SAINT LIBORY	80,687	
VILLAGE BANK, SAINT LIBORY		80,687
278.ARTHUR R. MURRAY, INC., MILFORD	79,866	
CITIZENS STATE BANK OF MILFORD		53,468
DEWEY BANK, DEWEY		25,095
279.GERBER BANCSHARES, INC., ARGENTA	79,621	
GERBER STATE BANK, ARGENTA		79,621
280.CLAY CTY. STATE BANCSHARES, INC., LOUISVILLE	79,580	
CLAY COUNTY STATE BANK, LOUISVILLE		79,580
281.FIRST BANCORP OF SPARTA, LTD., SPARTA	79,479	
FIRST NATIONAL BANK OF SPARTA		79,474
282.NBE BANCSHARES, INC., EARLVILLE	79,123	
PIONEER STATE BANK, EARLVILLE		67,253
283.ANDERSON BANCORP, INC., ONEIDA	78,686	
ANDERSON STATE BANK, ONEIDA		78,686
284.ARENZVILLE BANCORP, INC., ARENZVILLE	78,465	
FIRST NATIONAL BANK OF ARENZVILLE		78,350
285.HBANCORP., INC., LAWRENCEVILLE	78,110	
HERITAGE STATE BANK, LAWRENCEVILLE		78,110
286.VILLA GROVE BANCSHARES, INC., VILLA GROVE	77,779	
VILLA GROVE STATE BANK, VILLA GROVE		71,237
287.LITCHFIELD BANCSHARES CO., LITCHFIELD	77,356	
LITCHFIELD NATIONAL BANK, LITCHFIELD		77,558
288.MAIN STREET BANCORP, INC., PRINCEVILLE	76,624	
PRINCEVILLE STATE BANK, PRINCEVILLE		76,624
289.MACKINAW VALLEY FINANCIAL SERVICES, INC.	76,445	
FIRST SECURITY BANK, MACKINAW		75,799
290.GRIGGSVILLE BANCSHARES, INC., GRIGGSVILLE	76,084	
FARMERS NATIONAL BANK OF GRIGGSVILLE		76,025
291.FIRST COMM. BANC HOLDING CO., HILLSBORO	75,970	
FIRST COMMUNITY BANK OF HILLSBORO		75,970
292.MGB BANCSHARES, INC., MATTOON	75,584	
FIRST NATIONAL BANK, MATTOON		75,475
293.MASON CITY BANCORP, INC., MASON CITY	75,350	
MASON CITY NATIONAL BANK, MASON CITY		75,350
294.ILLINOIS HOLDING CO., MOLINE	75,203	
1ST COMMUNITY BANK, SHERRARD		70,709
295.CBT BANCORP, INC., TRENTON	74,865	
COMMUNITY BANK OF TRENTON		74,865
296.ASB MANAGEMENT CORP, ANNA	73,546	
ANNA STATE BANK, ANNA		73,546
297.CLAY BANCSHARES, INC., FLORA	72,121	
FLORA BANK & TRUST, FLORA		72,116
298.FIRST OF MURPHYSBORO CORP., MURPHYSBORO	71,429	
FIRST BANK AND TRUST CO. OF MURPHYSBORO		71,429
299.TRI-COUNTY BANCSHARES, INC., BEECHER CITY	70,674	
FIRST STATE BANK OF BEECHER CITY		70,654
300.BCC BANCSHARES, INC., HARDIN	70,375	
BANK OF CALHOUN COUNTY, HARDIN		70,263
301.FIRST BANCORP, INC., YATES CITY	68,343	
BANK OF YATES CITY		61,767
302.IUKA BANCSHARES INC., IUKA	68,086	
IUKA STATE BANK, IUKA		68,087
303.OKAWVILLE BANCSHARES, INC., OKAWVILLE	65,608	
OLD EXCHANGE NATIONAL BANK OF OKAWVILLE		65,482
304.UNITED COMM. BNCSHRS, INC., NORTHBROOK	64,808	
CENTRUST BANK, N.A., NORTHBROOK		66,511
305.PRAIRIE STATE BANCORP, INC., DANFORTH	64,786	
FARMERS STATE BANK OF DANFORTH		64,815
306.FIRST LACON CORP., LACON	64,392	
FIRST NATIONAL BANK OF LACON		64,392
307.PRAIRIELAND BANCORP, INC., BUSHNELL	64,046	
FARMERS AND MERCHANTS STATE BANK OF BUSHNELL		62,917
308.MILLENNIUM BANCORP, INC., DES PLAINES	62,092	
MILLENNIUM BANK, DES PLAINES		62,092
309.HEADQUARTERS HOLDING CO., AVA	61,623	
FIRST NATIONAL BANK OF AVA		61,560
310.AMERICAN METRO BANCORP, INC., CHICAGO	61,021	
AMERICAN METRO BANK, CHICAGO		61,021
311.ANB BANCORP, INC., ATLANTA	60,752	
ATLANTA NATIONAL BANK, ATLANTA		60,752
312.SCOTT MORGAN BANCORP, INC., BLUFFS	60,385	
BANK OF BLUFFS		60,375
313.SULLIVAN BANCSHARES, INC., SULLIVAN	59,731	
FIRST NATIONAL BANK OF SULLIVAN		59,731
314.LEMONT BANCORP, INC., LEMONT	59,532	
LEMONT NATIONAL BANK, LEMONT		58,868
315.ST. JACOB BANCSHARES, INC., SAINT JACOB	59,350	
STATE BANK OF ST. JACOB		59,350
316.H.F. GEHANT BANCORP, INC., WEST BROOKLYN	58,540	
H. F. GEHANT BANKING CO., WEST BROOKLYN		58,531
317.R & B MANAGEMENT CORP., WASHINGTON	57,362	
WASHINGTON STATE BANK, WASHINGTON		56,505
318.COMMUNITY HOLDINGS CORP., PALOS HILLS	56,753	
FIRSTSECURE BANK AND TRUST CO., PALOS HILLS		54,709
319.CITIZENS BANCSHARES, INC., WALNUT	54,198	
CITIZENS FIRST STATE BANK OF WALNUT		54,198
320.ELMWOOD BANCSHARES, INC., ELMWOOD	53,146	
FARMERS STATE BANK, ELMWOOD		52,915
321.MARSEILLES BANCORP., INC., MARSEILLES	51,693	
MARSEILLES BANK, MARSEILLES		51,693

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

ILLINOIS BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
322.MIDLAND BANCSHARES, INC., KINCAID	51,056	
MIDLAND COMMUNITY BANK, KINCAID		51,056
323.ST. ANNE BANCORP, INC., MANTENO	50,169	
NATIONAL BANK OF ST. ANNE		50,169
324.PREFERRED BANCORP, INC., CASEY	49,400	
PREFERRED BANK, CASEY		49,221
325.PEARL CITY BANCORP, INC., PEARL CITY	48,872	
STATE BANK OF PEARL CITY		48,267
326.COWDEN BANCORP, INC., SPRINGFIELD	48,561	
COMMUNITY BANKS OF SHELBY COUNTY, COWDEN		48,559
327.SOUTHERNTRUST BANCSHARES, INC., GOREVILLE	48,348	
SOUTHERN TRUST BANK, GOREVILLE		48,348
328.COLUMBIA BANCSHARES, INC., COLUMBIA	48,120	
COLUMBIA NATIONAL BANK, COLUMBIA		48,120
329.TG BANCSHARES, INC., TABLE GROVE	47,776	
TABLE GROVE STATE BANK, TABLE GROVE		47,759
330.FSBO HOLDINGS INC., OLMSTED	47,342	
FIRST STATE BANK OF OLMSTED		47,342
331.SOUTH PORTE FINANCIAL INC., MARION	47,102	
SOUTH PORTE BANK, MARION		47,102
332.MC BANCORP, INC., MODESTO	46,494	
BANK OF MODESTO		46,494
333.BUCKLEY BANCORP, INC., BUCKLEY	45,112	
BUCKLEY STATE BANK, BUCKLEY		45,105
334.FAYETTE CTY. BANCSHARES, INC., SAINT ELMO	45,055	
FAYETTE COUNTY BANK, SAINT ELMO		44,966
335.FIRST SANDOVAL BANCORP, INC., SANDOVAL	44,948	
FIRST NATIONAL BANK OF SANDOVAL		44,948
336.BUTLER POINT, INC., CATLIN	44,740	
FIRST NATIONAL BANK OF CATLIN		44,740
337.GREAT RIVER BANCSHARES, INC., QUINCY	43,842	
HILL-DODGE BANKING CO., WARSAW		43,819
338.WATERMAN BANCSHARES, INC., WATERMAN	43,685	
WATERMAN STATE BANK, WATERMAN		43,526
339.FRANKLIN BANCSHARES, INC., FRANKLIN	43,195	
FRANKLIN BANK, FRANKLIN		43,195
340.BLUESTEM DEVELOPMENT CORP., JOY	43,172	
JOY STATE BANK, JOY		43,054
341.HUTSONVILLE BANC CORP., HUTSONVILLE	41,971	
FARMERS & MERCHANTS BANK OF HUTSONVILLE		41,971
342.FIRST COMMUNITY BANCSHARES, XENIA	41,333	
FIRST COMMUNITY BANK XENIA-FLORA, XENIA		41,334
343.SOUTH CENTRAL BANCORP, INC., KINMUNDY	41,240	
FIRST NATIONAL BANK OF KINMUNDY		41,201
344.NORTHWEST EQUITY CORP., BUFFALO GROVE	41,080	
1ST EQUITY BANK NORTHWEST, BUFFALO GROVE		40,974
345.VAN ORIN BANCORP, INC., VAN ORIN	40,670	
FIRST STATE BANK OF VAN ORIN		40,670
346.MONTGOMERY BANCSHARES, INC., MONTGOMERY	40,585	
BANK OF MONTGOMERY		40,584
347.MAIN STREET BANCSHARES, INC., BENTON	39,284	
GRAND RIVERS COMMUNITY BANK, GRAND CHAIN		39,284
348.FSB CORP., SUBLETTE	39,270	
FARMERS STATE BANK OF SUBLETTE		39,270
349.FIRST BROWNSTOWN BNCRP., INC., BROWNSTOWN	36,828	
FIRST NATIONAL BANK OF BROWNSTOWN		36,828
350.PEOPLES FINANCIAL CORP., COLFAX	36,750	
PEOPLES STATE BANK OF COLFAX		36,750
351.NORTH ADAMS BANCSHARES, INC., URSA	36,383	
NORTH ADAMS STATE BANK, URSA		34,874
352.BARKER BROTHERS, INC., SPRINGFIELD	34,166	
MIDDLETOWN STATE BANK, MIDDLETOWN		33,573
353.WENONA BANCORP, INC., WENONA	32,802	
WENONA STATE BANK, WENONA		33,030
354.ST. PETER BANCSHARES, INC., SAINT PETER	30,463	
FIRST STATE BANK OF ST. PETER		30,463
355.BLUE MOUND BANCSHARES, INC., BLUE MOUND	30,145	
STATE BANK OF BLUE MOUND		30,110
356.EASTON BANCSHARES, INC., EASTON	29,903	
COMMUNITY BANK OF EASTON		29,901
357.FIRSTATE BANCORP, INC., MASON CITY	29,284	
1ST STATE BANK OF MASON CITY		29,284
358.MOULTRIE BANCORP, INC., LOVINGTON	23,124	
HARDWARE STATE BANK, LOVINGTON		22,939
359.TRI-COUNTY HOLDINGS, INC., DONGOLA	22,715	
FIRST STATE BANK OF DONGOLA		22,715
360.SIDELL BANCORP, INC., SIDELL	22,686	
SIDELL STATE BANK, SIDELL		22,643
361.CAMP GROVE BANCORP, INC., CAMP GROVE	21,623	
CAMP GROVE STATE BANK, CAMP GROVE		21,622
362.ANCHOR BANCORP., INC., ANCHOR	14,992	
ANCHOR STATE BANK, ANCHOR		14,948
363.TEXICO BANCSHARES CORP., TEXICO	8,606	
TEXICO STATE BANK, TEXICO		8,608

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

President's Observations, *Continued from page 4*

Julie Hill talking about the inadequacies of the regulatory appeals process. And I remember Paul Kingsman, an Olympic swimmer, urging us to stay focused. He did and won a bronze medal in the process.

I recall our Fall Seminar, where we learned about vendor management and ways to mitigate some of the worries that come with technology. There was consultant Don Musso urging us to figure out ways to market to millennials, and economist Toby Madden giving us the various possibilities for the economy in the coming months. Of course, what I really enjoy at the seminars is reconnecting with folks like you, the other bankers. Networking always has been one of the biggest benefits of BHCA membership.

With the close of the year fast approaching, I wish you a great holiday season and an even better 2016. Thanks very much for giving me the opportunity to serve as your president. See you at the next seminar!

Fed Notes, *Continued from page 13*

If BHCs sell assets to or purchase assets from their DIs in conducting the activities, they must also ensure that they comply with the provisions of 23A and 23B of the Federal Reserve Act that restrict transactions with affiliates.

The discussion above highlights only a few of the factors BHCs need to consider when planning to engage in nonbanking activities requiring the Federal Reserve's prior approval. If you have any questions about the permissibility of a nonbanking activity or want more information about submitting a filing to engage in a nonbanking activity or to become an FHC, please contact Reserve Bank staff.

Julie Randall is Applications Analyst at the Federal Reserve Bank of Minneapolis.

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, 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.

Access

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. 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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