theBHCA.org — Spring 2020

Bank Owner

Bank Holding Company Association Magazine

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800-931-7782

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Adam Maier
612-335-1412

Sycorr
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Jeremy Neuharth
855-212-1155

UMB Bank n.a. Investment Banking
Kansas City, Mo.
Stephen DuMont
816-860-8707

The Bank Holding Company Association exists to provide education and business connections critical to the vitality of bank holding companies.

Founded in 1981, the BHCA 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 *Bank Owner* magazine is the quarterly publication of the BHCA. The magazine 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 website, theBHCA.org. Managing Director Tom Bengtson serves as editor. Contact him at (952) 835-2248 or 1-800-813-4754 or email us at info@thebhca.org.

Bank Owner

Spring 2020

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The Bank Holding Company Association
945 Winnetka Ave. N., Suite 145 | Minneapolis, MN 55427

I look forward to serving you as the 2020 BHCA President

By Harry Wahlquist
Midwest Bancorporation, Inc.
Eden Prairie, Minn.

The Bank Holding Company Association is 39 years old in 2020, having started in 1981. I am honored to be president of the organization, which I joined in the early 1990s shortly after forming my holding company, originally called First Community Bank Group., Inc., and now called Midwest Bancorporation, Inc. I have found the BHCA to consistently deliver value when it comes to education and networking. There are other excellent associations in the banking industry but I have found the BHCA to be unique in its focus on bank owners and bank directors.

I look forward to the year ahead, when I expect we will dig further into a strategic planning process, which the board of directors began last summer. Should the BHCA be offering more programming, or a different kind of programming? Should we seek to serve banks located beyond the Upper Midwest and Central States? What other things could we be doing to provide additional value to our members and attract new members? We hope our ongoing strategic planning will result in answers to some of these questions.

I come to this position within the BHCA with decades of banking industry experience. Perhaps some of you remember me from my Northwestern Bank experience. For a long time, I had thought about branching out on my own and the opportunity came in 1990 when I formed the holding company in order to purchase the First National Bank of Bertha-Verndale, a Minnesota bank with roots that go back to 1904. Since 1990, the bank has grown from two offices to 10 with the 1995 acquisitions of Citizens State Bank of Barrett, the Elbow Lake and Wheaton offices of Metropolitan Federal Savings and Loan, and the First State Bank of Graceville. We merged those charters in 2000 and renamed the franchise Star Bank. Since then, we purchased the Eagle Bend office of Lake Country State Bank of Long Prairie, a loan production office in Annandale, and opened *de novo* branches in Annandale and Eden Prairie. We acquired the Maple Lake office of the First National Bank of Elk River in 2012.

I remain president, CEO and chairman of the board, and I am privileged to work with two members of the Wahlquist family on our senior management team: Andy Wahlquist, who is senior vice president and chief operations officer, and Katie Wahlquist, senior vice president and chief administrative officer. We are a true family-owned bank. In fact, we have a family council which meets quarterly to discuss the bank and its strategic issues.

Like most banks, we have a mission statement and core values. We state these right on our website. Let me take a moment to share our five core values:

Agility — Our uniqueness is our ability to be flexible, balanced and accessible. Key decisions are made "at the table" in a steadfast manner. Our customers reap the benefits of this agility in experiencing less red tape than permeates larger banks.

Caring — We believe in treating each of our customers in the same manner we would want to be treated, and we strive toward achieving that goal every day. We engage ourselves in building relationships by asking questions and listening, without simply assuming that we know.

Community Commitment — We take great pride in building life-long relationships within the communities we serve. Our employees are active in many different organizations that enhance

President's Observations, *Continued on page 14*

New luncheon event opens Spring Seminar

Be sure to study the information in this edition regarding our upcoming Spring Seminar, "Launch your Decade of Opportunity." We are expanding the seminar, adding a luncheon at the beginning of the event. We have created this luncheon to give members the opportunity to bring along superstars in the organization. *BankBeat* magazine is teaming with the BHCA to honor some of the industry's bright lights — some are established leaders, others are rising stars. The banking industry is fortunate to have such depth of talent! We look forward to recognizing some of that talent at this festive and inspirational event.

And we have arranged for P.J. Fleck to address the group. Fleck is the coach of the University of Minnesota Golden Gopher football team, which recently finished the season by beating Auburn in the Outback Bowl in Orlando on Jan. 1. The 2019 season was incredible, with the team going 11-2. Fleck has built an amazing program in just three years. He will share insights into how he did it. He will explain how he motivates others, provides leadership and gets everyone "rowing in the same direction."

Coach P.J. Fleck

Anyone who has followed the Gopher football program undoubtedly has heard the phrase "row the boat." Coach Fleck uses the phrase frequently to communicate important life lessons.

"When you row a boat, you're rowing; don't ever look at me and paddle," he explained to a reporter at the *Pioneer Press*. "Your back is to the future... You have to trust the person in front of you, that they're doing their job and rowing at the same speed, same efficiency as you are. That's the future, you can't control that."

Nor can you change the past, he notes. "You either choose to take your oars and put them back in the boat and stop, or you put them back in the water and continue to go. But you're looking at the past, which is the only thing you can actually learn from. But you can't change it," he said. "You're rowing in the present, which is the only thing you can actually control, and the only thing you can actually have an impact on."

> "When you row a boat... you're rowing in the present, which is the only thing you can actually control, and the only thing you can actually have an impact on."
>
> P.J. Fleck

Fleck builds his analogy by noting the three things a rower uses: an oar, a boat and a compass. "The oar is the energy you bring to your life, your family, your team, your spiritual life, your personal life, your social life. It's the energy. Energy breathes love. If you love something, you're going to put a lot of energy into it."

By Tom Bengtson
BHCA Managing Director

Fleck calls the boat a symbol for sacrifice. "The more you give, the bigger the boat gets, the more people you can put in it and the sturdier the boat gets... you can do a lot more when you have a sturdy boat."

He said the compass is like the people with whom you choose to surround yourself. This point is especially important for young people, he said. "Your compass is the direction of where your boat is actually traveling. But you're traveling in the direction of people that you're actually surrounded by, and you've got to be OK with your circle getting smaller as your life goes on by the decisions you make."

There's a whole lot more to P.J. Fleck than football, and I expect we will get a sense for that at our Leadership Recognition luncheon on May 4. Even if you can't make it for the entire seminar, please plan to join us for the Monday lunch.

Strategy to mitigate tax impact of CU deals to buy banks

One of the more startling post-Great Recession trends is the rising number of credit unions that are purchasing banks. The Wings Financial deal announced in February was a doozy. The $5.6 billion credit union is buying Neighborhood National Bank, a $225 million bank based in Mora, Minn., with branches in

Down to Business, *Continued on page 13*

By Mike Courtney

Process-centric view key to building digital ecosystem

With the term "digital transformation" on the lips of every C-level executive, it has become a strategic priority for most companies. The digital transformation journey can take several paths but one consistent goal is to achieve an integrated solution that provides the maximum return on investment. For many, the effort necessary to embark on a transformation journey can be overwhelming; this keeps them from taking the first step. The goal of this article, therefore, is to provide you with a head start to achieving an integrated digital ecosystem.

One of the most important goals of digital transformation is to address the disjointed processes and technologies within many organizations. This condition leads to inefficient operations, higher operating costs, lower customer satisfaction, employee frustration and many other negative issues that affect business metrics. An organization with well-integrated processes and enabling technologies can achieve lower operating costs, be more nimble with market adjustments and maintain margins while scaling the business.

Process and strategy

The process of designing and creating an integrated digital ecosystem should always start with a clear business strategy. Having a clear understanding of the value that the effort will return to the business, as well as some guiding principles for how decisions will be made, provides a solid foundation to begin your digital transformation journey.

Once that strategy is established, achieving an integrated digital ecosystem begins with taking a process-centric view of the business. Defining the business along primary processes such as quote-to-cash, record-to-report and acquire-to-retire, provides a cross-functional view of the business, which is key to identifying critical integration points.

Be sure that you include both internal and external entities that are involved in the process during this effort. External integration points can be some of the most critical areas in transforming a process. These integration points can be translated into focus areas for consideration when designing and selecting your digital enablement technologies.

Selecting your technology

When selecting an enabling technology, it is very common to focus narrowly on the function that the technology is going to enable and then pick the best solution for the specific function. However, this approach is how many organizations end up in disjointed processes and technology architectures. By starting with a process-centric view first and understanding where cross-functional integration exists, you can incorporate these key interaction points into your method for designing your digital technology ecosystem.

Once you have your process view of the business and identified functional integration points, the technology integration design can begin. The team should start working its way across the processes to evaluate if technology enablement is needed within the specific function. If enablement is needed and there is a solution in place, then it should be evaluated for its ability to support the strategic goals of the transformation.

If no enabling technology is in place, then a set of selection criteria should be defined. In fact, some of the strategic alignment criteria used to evaluate the existing technology would also be applicable to the selection of a new platform. During the evaluation of the enabling technologies, the solutions should be reviewed for their ease of integration with the planned digital ecosystem.

Integrating your digital ecosystem

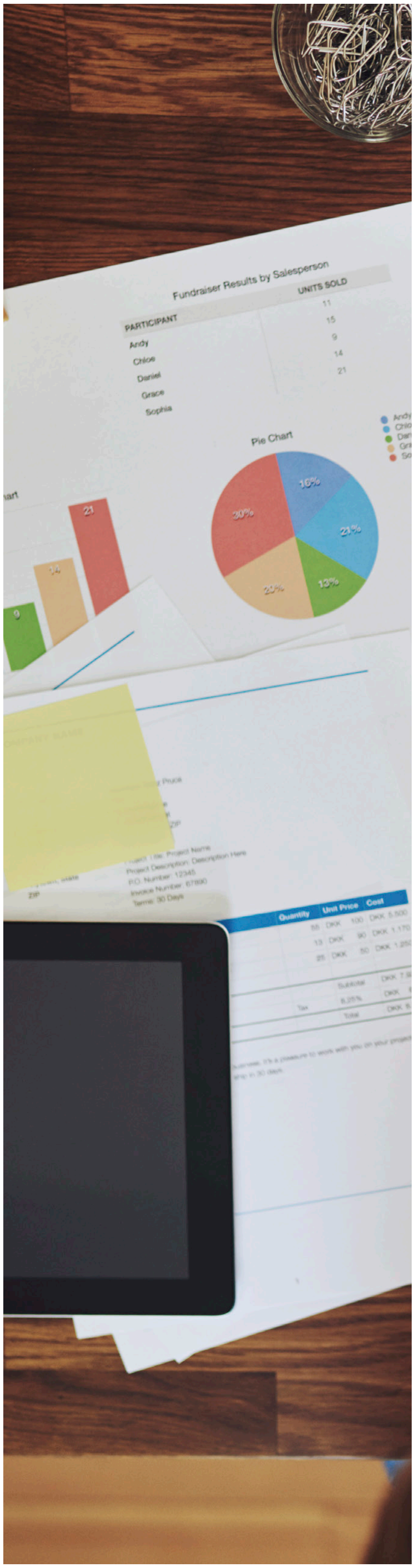
The key to this evaluation is the functional integrations point. The integration points can be the place where two technologies will need to work together and thus they can help you evaluate if a solution is a fit for your ecosystem. After evaluating and selecting the digital technologies, the stage is set for implementation, the next stop on the digital journey.

As you begin your digital journey, remember these key steps to help you achieve an integrated digital ecosystem. First, define your strategy and the goals of taking the journey. Second, understand your business processes and where cross-functional integration points exist. Third, evaluate your enabling technologies for both their ability to optimize the function as well as their ability to integrate easily with your broader digital ecosystem. By applying these three steps you will achieve an integrated digital ecosystem, limit risk and better enable growth without increasing cost. ■

Mike Courtney is a principal at RSM US. Reach him at 800-274-3978 or at Mike.Courtney@rsmus.com.

By Blake Crow and Paul Sirek

S-Corp Banks and BHCs should keep basis records



The IRS requires owners of S corporation banks and bank holding companies to track and report tax basis. The requirement is effective with tax years beginning in 2018. The owners of a pass-through entity must now attach, to their individual tax returns, a calculation of the tax basis in their shares if they:

- Are allocated a loss;
- Received a distribution;
- Disposed of their ownership interest during the year; or
- Received a loan repayment from the company.

Why was the basis requirement put into place?

It appears the IRS has noticed a relatively high rate of noncompliance. In response, the IRS has drafted and published a soft letter to send to taxpayers who have not attached a basis worksheet to their individual tax return.

What types of banks does the new basis requirement impact?

This new IRS requirement is likely to impact most S corporation banks and bank holding companies.

Since the calculation of basis is cumulative, each taxpayer must update their basis in the entity annually, even if none of the events requiring tax return disclosure arise during the year. According to the IRS, the obligation to determine and disclose the tax basis is the owner's. The owner will report and disclose the information needed on an attachment to Schedule E and include with Form 1040.

Even though the obligation to determine and disclose tax basis is the owner's, pass-through entities should maintain basis records for the owners and provide the calculation of the adjusted basis alongside the Schedule K-1s. Starting this process as early as possible is key. Ideally, the beginning basis for each owner will be updated as of the beginning of 2019.

What is the benefit of maintaining basis records?

Maintaining basis records has significant benefits for the pass-through entity. Many owners do not maintain basis records and the information that adjusts basis annually. Maintaining an entity's basis records will facilitate a more accurate ownership list and improve the accuracy of the allocations on Schedule K-1s as part of the tax return. If the pass-through entity is maintaining basis, an opportunity opens for the entity to send a confirmation letter to every owner during the first week in January requesting confirmation of the ownership, of any changes in ownership, and the facts surrounding those changes.

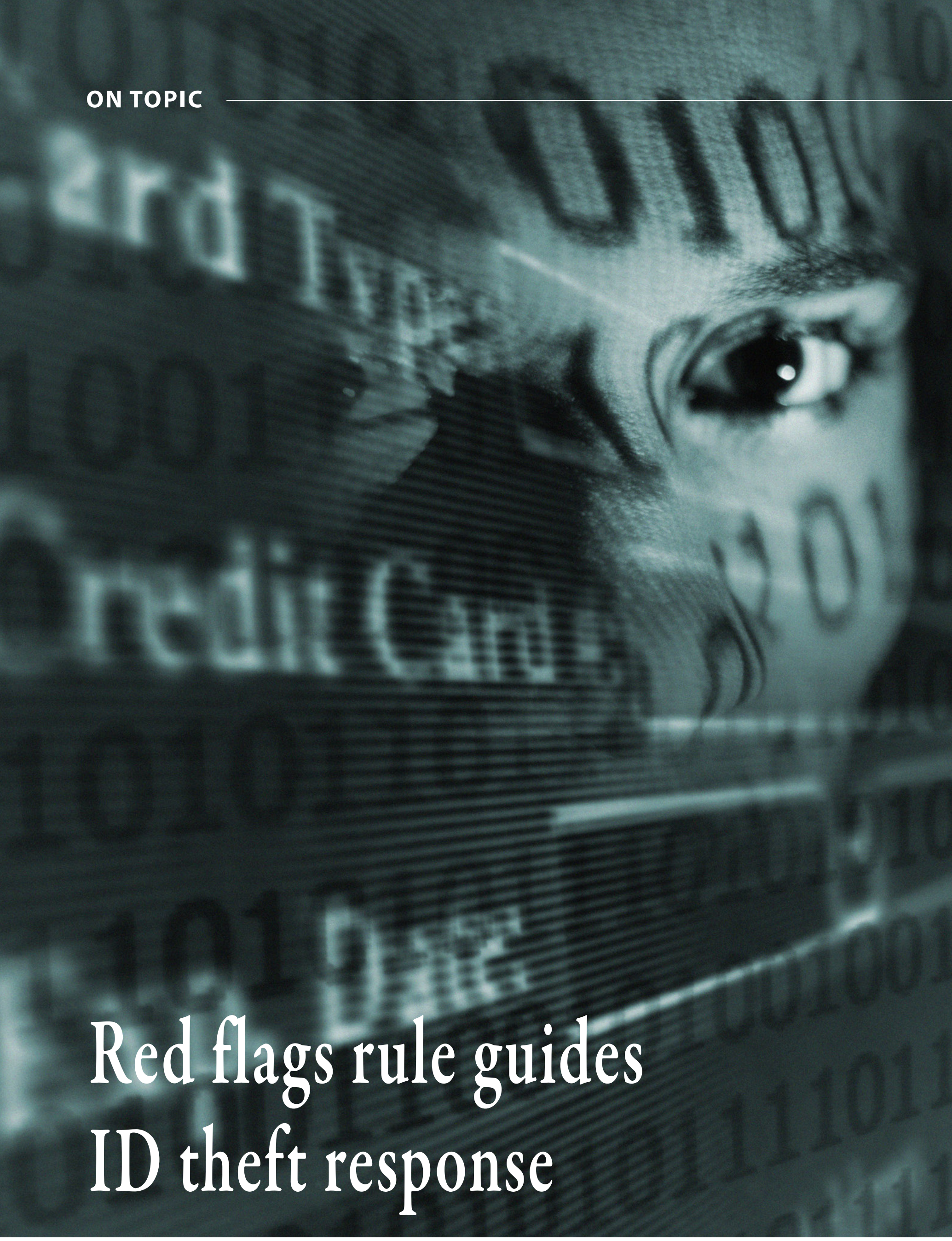
This confirmation identifies otherwise unknown gifts among family members, changes in trusts, deaths of owners, and unreported purchases and sales of shares. Therefore, maintaining basis records will vastly improve the accuracy of the allocations of income and distributions.

Inaccurate reporting can result in termination

S corporation banks are exposed to having their S-election inadvertently terminated by unreported shareholder actions, especially actions involving trusts and estates. Maintaining the

Basis Records, *Continued on page 15*

By Kris St. Martin



Red flags rule guides ID theft response

Do you have an identity theft program? Discover the ins and outs of The Red Flags Rule to ensure compliance and get a clear look at their impact on financial institutions.

Each year, more than nine million Americans are the victims of identity theft. Often times, there are red flags – that is, potential patterns, practices or activities indicating the possibility of identity theft – before it actually happens.

The Federal Trade Commission's Red Flags Rule requires affected businesses to take an active role in recognizing and stopping identity theft. Specifically, this is accomplished through a mandatory, written identity theft prevention program coupled with employee training. The rule is enforced by the FTC, the federal bank regulatory agencies and the National Credit Union Administration. Failure to comply can bring a fine of up to $2,500 per instance for willful and knowing violations.

Businesses required to comply

The Red Flags Rule applies only to financial institutions and creditors who have, or work with, covered accounts. The FTC defines the scope of these terms as outlined below.

A financial institution, according to the FTC, is any business holding a transaction account that belongs to a consumer or any institution that offers accounts where the consumer can make payments or transfers to third parties. Examples include:

- State/national banks
- State/federal savings and loan associations
- Mutual savings banks
- State/federal credit unions
- State-chartered credit unions
- Mutual funds that offer accounts with check writing privileges

The FTC's definition of a creditor is any business or organization that regularly provides goods or services and then either defers payment or bills customers later. Also included in this group is anyone who regularly grants loans, arranges for loans, arranges for extension of credit, sets the terms of credit or makes credit decisions.

Covered accounts are those offered to customers for personal, family or household purposes that are designed to permit multiple payments or transactions. Accounts that have a "reasonably foreseeable" risk of identity theft are also considered covered accounts under the rule even if they are not for personal use. Analyzing how these accounts are accessed, how many people they can be accessed by and the accounts' past identity theft history will determine whether owners of these accounts must be compliant with the rule.

How to comply

If you have determined, according to the FTC's financial institution criteria, that you must comply with the Red Flags Rule, then you are required to develop and implement a written identity

Theft Response, *Continued on page 15*

By Tony Cole

Create a no-excuses sales environment with strong tracking, accountability processes

In order to have success reaching goals, we must hold salespeople to the necessary activity through strong tracking and accountability processes. We often describe the term "accountability" as the 14-letter dirty word because in most organizations the process of inputting, collecting, and inspecting sales activity is not well-liked, by salespeople or management.

Most banks require strict accountability in their organizations, but they often fail to track activities that are the most predictive of sales results. Too often, the metric of "new business" or "increase in revenue" is the identified and inspected metric. Tracking only this end-result metric is similar to looking in a rear view mirror in that this does not give you necessary, early predictive information. In hindsight, nearly anything is clear.

So in addition to tracking "new business" or "increase in revenue," we need to track metrics like number of prospecting dials made, appointments made, appointments kept, second meetings, etc. Tracking this type of information will allow us to ascertain important ratios, like the ratio of prospecting dials to first appointments and the ratio of prospecting dials to closes. With this information we can intelligently set and track activity goals. Thus, if we hold our RMs accountable to their activities, we should be able to intelligently predict future sales.

This detailed information will give you the raw data needed to see patterns. It will help you recognize the correlation between each step: prospecting to qualifying, qualifying to first meeting, first meeting to presentation, presentation to sale. Often salespeople and managers do not know how many prospecting calls they need to make to exact a sale (call-to-sale ratio). Yet this detail is vital information to the success of each advisor and to the organization.

As an effective manager you must track, inspect and coach each step in the selling process including phone calls, contacts, opportunities, appointments, proposals and closed sales. This process of accountability is hard work but if you have taken your people through the discussion of setting extraordinary goals and your RMs have agreed to manage themselves to Excellent or Extraordinary, then you have done some of the heavy lifting by setting expectations.

Next we need to address holding people accountable. Tracking activity is beneficial only if the data will be used to hold salespeople to their promised goals. You must help each person understand the ramifications of failure to achieve their set goals.

Accountability Processes, *Continued on page 18*

Overview

The start of a new decade offers an exciting time to launch into new long-term opportunities. The Bank Holding Company Association Spring Seminar is designed to provide the information, education, networking and inspiration to help you take your organization to the next level.

We have expanded the seminar with a Leadership Luncheon on opening day, where we will recognize some of the people who make the banking industry so crucial to the well-being of our communities and the nation's economy. Teaming with *BankBeat* magazine, college football coach P.J. Fleck will deliver a message appropriate for your entire leadership team and emerging leaders, so plan to bring several colleagues.

The following presenters will address timely topics:

- **Tom Hershberger** of Cross Financial on the customer experience
- **Brian Love**, The Travillian Group, on talent management
- **Chad Hoffman**, Richwood Bancshares, on business model transformation

Plus, sessions on LIBOR, cybersecurity, your digital ecosystem and liquidity risk. The seminar also includes updates on the economy and the political scene.

We close our seminar with a luncheon on Tuesday featuring a panel discussion on the advantages of including women in the leadership of your organization. Panelists will feature survey data as well as draw from practical examples/case studies. This presentation has been raising awareness and drawing praise at industry events across the country.

Our registration options offer maximum flexibility so you can customize your event participation. Whether you attend the entire seminar or focus on one day, consider inviting colleagues for one or both of the lunches, or the Monday evening dinner.

And we are happy to bring back our Tuesday evening dinner-and-show event at the Chanhassen Dinner Theatre for a delightful presentation of the classic, "The Music Man."

So don't delay, register today!

Agenda

MONDAY, MAY 4

P.J. Fleck

Noon to 2:25 p.m.
"Leadership Recognition Luncheon" Sponsored by BankBeat magazine and BankBeat.biz
Master of Ceremonies: Tom Bengtson, BHCA
Speaker: P.J. Fleck, University of Minnesota

The Bank Holding Company Association kicks off its 2020 Spring Seminar with its inaugural Leadership Recognition Luncheon. We will take time to honor emerging and established leaders active in the banking industry and in the BHCA. Keynote Speaker P.J. Fleck, head coach of the University of Minnesota Golden Gopher Football team, will talk about "Row-the-Boat" Leadership. With a "Monday lunch only" registration available, plan to bring along your entire board, leadership team and future leaders!

Tom Hershberger

3:00 to 4:00 p.m.
"Make Your Customer Experience A Strategic Advantage"
By Tom Hershberger, Cross Financial

Organizations that excel remain focused on the customer and everything that influences their relationships. Blending technology, expertise and personal connections is imperative to creating long-term customer relationships. Learn how to take a strategic approach to delivering your desired customer experience.

Brian Love

4:00 to 5:00 p.m.
"The Talent LIfecycle: Acquire, Retain, Develop, Promote"
By Brian Love, The Travillian Group
With Tim Schneider, Investors Community Bank

A recruiter and a banker share best practices and lessons learned regarding talent management and its correlation to a bank's sustainability. The discussion will include ideas and thoughts around attracting and recruiting the right talent, retaining and engaging your team, developing and investing in your future leaders, and taking succession planning seriously.

5:00 to 6:30 p.m.
Reception (Outdoor courtyard, weather permitting)

6:30 to 7:15 p.m.
Dinner

David Schultz

7:15 to 8:15 p.m.
"The Political Landscape: An In-Depth Look"
By Professor David Schultz, Hamline University

The 2020 elections are generating significant interest as potentially the most important in years. Prof. Schultz will explain the factors, trends and forces impacting the 2020 elections, and look beyond them to why they are significant in terms of politics and policy.

TUESDAY, MAY 5


Chad Hoffman


KC Mathews

7:30 to 8:30 a.m.
Buffet Breakfast

8:30 to 9:30 a.m.
"The Community Bank Model Redesigned to Secure Retail Deposit Growth"
By Chad Hoffman, president/CEO, Richwood Bancshares

Believing the current banking business model needs a facelift, Richwood Bancshares started a payroll service, a marketing firm and an education service in one year to help attract business accounts and loans. The bank also has coffee shops in four of its eight branches increasing foot traffic and account openings. The bank has won Top Workplace Awards and has been recognized in *Fortune Magazine*. Learn how Richwood's vision and strategy execution has helped drive new excitement around community banking in 2020.

9:30 to 10:30 a.m.
"The Dominoes are Wobbling "
By KC Mathews, UMB

There are potential threats to the economy. What factors are causing the economic dominoes to wobble? How long will the wobbling last? Gain insights into the trends impacting the current economic environment and obtain information to help make effective planning and investment decisions during this engaging presentation.

10:30 to 11 a.m.
Networking Break

11:00 to 11:35 a.m.
Round 1 of Breakout Sessions

11:45 a.m. to 12:20 p.m.
Round 2 of Breakout Sessions
(each breakout session is presented twice)

12:30 to 1:00 p.m.
Luncheon


Terrie Spiro (left)
Jennifer Docherty (right)

1:00 p.m. to 2:30 p.m.
"Creating Competitive Advantage: Women in Leadership"-Sponsored by CBIZ
Panelists:
Jennifer Docherty, Piper Sandler
Terrie Spiro, CecilBANK
Lori Novickis, CBIZ
Kris St. Martin, CBIZ

Jennifer Docherty and Terrie Spiro, founders of Bank on Women, Inc., head a panel discussion on the competitive advantage banks can create by including women in senior leadership, including their boards of directors.

Breakouts *(each session presented twice)*

"Life After LIBOR"
By Samuel Johnson, Country Club Bank

In a high level overview of the transition away from LIBOR, we will discuss how we got here and where we currently stand. Most importantly, we will consider what may be the impact on your bank (loans, derivatives and investments).

"Cybersecurity: Mitigating the Risk"
By Kris St. Martin, CBIZ

This session will look at cyber attacks your institution may face, best practices for protecting your bank, information about how insurance can protect your organization, and why your cyber risk policy language matters.

"Integrating AI Into Your Digital Ecosystem"
By Mike Courtney, RSM US

Commonly used at the largest banks and many regionals, artificial intelligence will soon be productized and made economically available to banks of all sizes. Is your institution ready? How will you make the most of this powerful technology? This session will provide insight into how to introduce AI to your customers, enhancing existing products and making entirely new products possible.

"Liquidity Risk Management in the Face of Changing Market Conditions"
By Michael Holdren, CPA, Eide Bailly

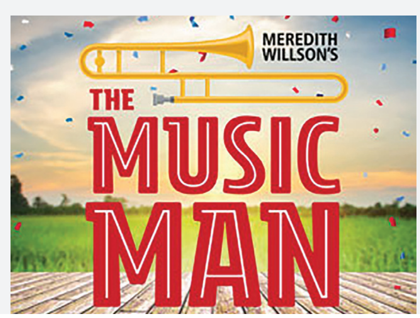
Liquidity is becoming increasingly difficult to manage as banks face challenges growing deposits. Whether it's technology, interest rates, competition or demographics, institutions of all sizes are experiencing new tests in the battle for funding. This session will focus on the forces impacting liquidity and how bank management can manage the risk.

Dinner and a Show

Will you be in town through Tuesday evening? Join us for the

Chanhassen Dinner Theatre's "The Music Man"

- Bus leaves at 4:30 p.m.
- Dinner seating at 6 p.m.
- Show begins at 8:00 p.m.
- Bus brings guests back to Marriott Minneapolis Airport hotel at 10:30 p.m.



LOCATION

Marriott Minneapolis Airport
2020 American Boulevard East
Bloomington, MN 55425

To make your reservations, please contact the hotel directly at 952-854-7441.

The BHCA group rate is $145 per night if booked by Wednesday, April 22.

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FULL SEMINAR:

		Price	Number	Amount
BHCA Members:		$450	______	_____
Non-Members:		$625	______	_____

SINGLE-DAY:

		Price	Number	Amount
Monday Session (May 4):	Members	$265	______	_____
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Tuesday Session (May 5):	Members	$215	______	_____
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		Price	Number	Amount
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	To purchase a discounted table for 8 people, please contact the BHCA			
Monday Reception/Dinner Only:	Members	$75	______	_____
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Tuesday Lunch Only:	Members	$65	______	_____
	Non-Members	$75	______	_____
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Tuesday Dinner & Show:	Members and Non-Members	$115	______	_____

TOTAL AMOUNT ENCLOSED: **$** ____________

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Bank Holding Company Association
945 Winnetka Ave. N., Suite 145, Minneapolis, MN 55427

Or Register online at www.theBHCA.org. Need more info? Call **952-835-2248**

The cost of the meals, entertainment and breaks included in the registration fee for this event are estimated at $60 for the Monday lunch, $90 for the Monday dinner/reception, and $100 for Tuesday ($60 for lunch only). This information is provided for your tax records in keeping with IRS deductibility provisions. By registering, you authorize the BHCA to use your image for promotional purposes. Cancellation Policy: Due to commitments and expenses, all cancellations after March 23, 2020 will be subject to a $75 processing fee. We regret that no refunds will be given after April 20, 2020; however, substitutes are welcome anytime. The BHCA assumes no liability for any nonrefundable travel, hotel or related expenses incurred by registrants. Cancellations or substitutions must be made in writing to Paula@theBHCA.org.

Down to Business, *Continued from page 5*

four other central Minnesota communities. Wings, with some 280,000 customers, or “members” as the credit union industry likes to call them, expects the deal to close in the third quarter.

There were a dozen deals last year where a credit union purchased a bank, and eight the year before that. In the past decade there have been about 40 such deals — a small fraction of the total number of bank M&A transactions but nonetheless significant given these deals were unheard of pre-Great Recession.

Bankers are calling on elected officials to put an end to these deals. Bankers correctly point out that every time a credit union buys a bank, it takes a tax-paying bank off the tax rolls. This should alarm all tax-paying citizens. It doesn’t make sense to allow a significant portion of a tax-paying industry to move to tax exempt status.

While bankers have not had success convincing elected officials to extend the income tax to credit unions, I think they may have some success slowing down the migration of banks to non-tax status. One reason credit unions get a tax break is their alleged inability to raise capital. But that argument becomes difficult to make for institutions with enough money to buy their competitors. Perhaps bankers can convince elected officials to pass laws taxing credit unions that purchase banks. At a minimum, the credit union should be required to pay taxes on the purchased assets, so the tax revenue stream to the state and federal governments are not aborted as a result of the acquisition. Credit unions that want to compete in urban or metro areas and buy banks in populated demographic areas should not be allowed to turn tax-paying banks into income-tax-free branches.

I think bankers could advocate effectively for the necessary changes in the law to affect such change, particularly if they cede the point in rural areas. If a credit union emerges as the only practical buyer for a small bank in a sparsely-populated rural area, then perhaps those deals should be allowed to continue. You can probably argue that the tax subsidy that an acquired financial institution office will get is a fair price for the public to pay to keep a financial institution in such a market. If the community banker looking to exit cannot find another bank to purchase it, then I think you can make a pretty solid argument that a credit union acquirer makes sense.

We have just seen, however, a bold effort by the Iowa Superintendent of Banking to try to stop the giant GreenState Credit Union from purchasing First American Bank of Fort Dodge. Superintendent Jeff Plagge pointed out that Iowa has a law preventing a bank that ceases to do business from selling its assets and liabilities to an organization that is not insured by the FDIC. Iowa sets an example for other states. Bankers in surrounding states could advocate for similar laws. There is a powerful public policy issue at play here. Taxpayers should not sit idly as a tax-exempt industry buys taxing-paying businesses.

Fintech competition makes key advancement

Pay attention to Varo Bank, the fintech that recently won the opportunity to buy FDIC insurance. The OCC is about the grant the bank a charter, and the Fed is soon to consider a forthcoming application for a holding company. This is an all-digital bank backed by Varo Money, Inc., which plans to put up more than $100 million to capitalize the venture.

In effect, the bank already exists, operating in partnership with a Wilmington, Del., bank called Bancorp Bank. Varo created the app and has garnered more than 1 million customers using the depository and lending services of Bancorp Bank. It was a hybrid approach for the fintech to get up and running as a financial institution in a relatively short amount of time. The operation has been in place for about four years.

Now, Varo is on the cusp of getting its own bank charter so it won’t need Bancorp Bank. Varo Bank says it will be able to save money and deliver more products and services with its own charter.

We all know there has been a dearth of *de novos* in recent years; well, maybe Varo is the new template for 21st century *de novos*. If you are going to make a huge investment to start a financial institution, maybe you don’t want to rely on the legacy business plan. Varo is using technology to help it efficiently deliver services via digital channels and phone lines.

I recently listened to a podcast where Varo execs explained they want to serve people currently ill served by traditional banks. To start with, Varo says it has no fees. Furthermore, they have unique services. For example, if you have your paycheck direct deposited into your Varo checking account, the bank will make the money available as soon as your employer deposits it rather than making you wait until payday. That might only be a day or two, but one Varo official said that’s a significant amount of time to folks living paycheck to paycheck, that is, folks hyper-sensitive to cash flow.

I write about Varo because maybe they will become the next new member of the Bank Holding Company Association! Maybe highly developed fintechs will provide the framework for banks to deliver new and traditional financial services in all kinds of new ways. I have no doubt there will always be banks, and there will always be a banking business, but I am not sure what that business will look like or how banking services will be delivered. Almost every business has been turned upside down by technology in the last two decades, banking included. A company like Varo represents the next step in the evolutionary process. ■

2020 BHCA officers named

The Board of Directors of the Bank Holding Company Association announced it has named the following officers for 2020:

- President: **Harry Wahlquist**, President of Midwest Bancorporation, Inc., Eden Prairie, Minn.
- Vice President: **Mary Jayne Crocker**, Bridgewater Bancshares, Inc., Bloomington, Minn.
- Treasurer: **Jeffrey Weldon**, Crosstown Holding Company, Blaine, Minn.
- Immediate Past President: **Rick Wall**, Highland Bancshares, Inc., Minntonka, Minn.

Harry Wahlquist joined the BHCA board in 2018. Now in his sixth decade of banking, Wahlquist founded Midwest Bancorporation, Inc., in 1990 to purchase the First National Bank of Bertha-Verndale. Today the bank is called Star Bank. As president, Wahlquist led the bank through six acquisitions and two de novo branches, so it now has $285 million in assets and 10 offices.

Mary Jayne Crocker joined the BHCA Board in 2017 and served as Treasurer for three years. She is Executive Vice President and Chief Operating Officer of Bridgewater Bank and Bridgewater Bancshares, Inc. She is responsible for all strategic initiatives and ensures the bank meets stakeholder expectations.

Jeff Weldon is Chief Financial Officer at Crosstown Holding Company and its subsidiary, 21st Century Bank. Weldon joined the BHCA board in 2019. Weldon is a licensed CPA and has a Bachelor of Science degree in finance from Minnesota State University in Mankato.

Rick Wall is President and CEO of Highland Bancshares and CEO and Chairman of the Board of Highland Bank, Saint Michael, Minn. Wall joined the BHCA board in 2017.

Their terms began Jan. 1, 2020, and run through Dec. 31, 2020. In addition to these officers, six other bankers serve on the BHCA Board of Directors. (See the complete list on page 4.) ■

Harry Wahlquist,
President

Mary Jayne Crocker,
Vice President

Jeffrey Weldon,
Treasurer

Rick Wall,
Immediate Past President

President's Observations, *Continued from page 4*

the quality of life for individuals in the community. We believe that reinvesting in the community will bring long-term social and economic gains which are critical to the success of independent community banks.

Integrity — We follow the highest standards of corporate governance to earn our customers' faith and ensure growth for the organization. We are dedicated to following the laws, rules and ethical principles that govern us to provide our customers with the peace of mind that they deserve.

Tenacity — We accept personal accountability toward our goals and we are willing to do what it takes by being proactive, willing to help, and delivering over-and-above service without a second thought or complaint.

One of the many reasons the bank has done well is our philosophy on risk-taking. We don't take long-term risks for short-term gains. We are more conservative, and we're here for the long haul. We are proud to make good loans to hard-working, local people whom we believe will pay us back.

Furthermore, we are optimistic and enthusiastic about our future — for our customers, the bank, and for the broader industry, especially as it is served by organizations such as the Bank Holding Company Association. ■

Basis Records, *Continued from page 7*

shareholders' basis facilitates more thorough annual due diligence to protect the validity of the S election. The S corporation bank will be better able to:

- Follow-up on deadlines for former grantor trusts or testamentary trusts to dispose of shares
- Ensure QSST and ESBT elections are filed timely
- Change ownership information from decedents to estates and then to beneficiaries of the estate

How do I maintain and report basis records?

Basis will be more accurate if the pass-through entity, through its tax preparer, maintains the basis records. All the information for the annual adjustment of owners' basis is available in the owner's Schedule K-1. However, tax basis can be complex; the risk of error increases as the number of owners increases and transactions in shares become more frequent.

If an owner uses up their basis, the pass-through entity can include a statement with the Schedule K-1 stating the amount of loss not allowable in the current year and will be carried forward, or the amount of gain that the owner should include in income. The statement is much more likely to have the attention of the owner's tax preparer than just the information on page 1 of the Schedule K-1.

Finally, under the Tax Cuts and Jobs Act, if an individual owner pays their tax preparer to determine basis, the cost is nondeductible. If the entity pays to maintain the basis records as part of the annual tax return preparation, it is an ordinary and necessary business
expense that reduces allocable taxable income on page one of the return.

The importance of complying with the new basis requirement

Pass-through entities should strongly consider maintaining basis records for their owners. These records will lower the possibility of incorrect basis and improve the accuracy of the Schedule K-1s.

Next steps

With the exception of very simple ownership structures with only a handful of owners, we strongly encourage pass-through entities to maintain the basis records for their owners. These records will lower the possibility of incorrect basis as well as improve the accuracy of the Schedule K-1s. ■

Blake Crow is a partner with Eide Bailly. Reach him at 515-875-7554 or bcrow@eidebailly.com. Paul Sirek is also a partner at Eide Bailly. Reach him at 612-253-6661 or psirek@eidebailly.com

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Theft Response, *Continued from page 8*

theft prevention program. For small businesses that must comply but are at low risk, the FTC supplies an online program to aid in program development.

According to the FTC, this new rule gives financial institutions the flexibility to tailor their programs based on their unique risks, and compliance will be based on how reasonably each business assesses these risks. Therefore, the FTC's only direction is that your program must be appropriate to your organization's size, complexity and the nature of its activities. High-risk companies for identity theft should implement more comprehensive programs. Here are some important steps to include in your program:

Recognize ID Theft Red Flags. Recognize identity theft red flags and ensure through proper training that your staff is able to spot them, as well. Also identify the sources of these red flags; for example, alerts from a credit reporting company, suspicious documents or personal identification information, and suspicious account activity.

Monitor Day-to-Day Activity. Detect red flags in your day-to-day activity. One way to do so is by establishing a written procedure for verifying or authenticating both new and existing accounts.

Take Extra Precautions. Take extra precautions such as changing passwords or security codes periodically, monitoring accounts, contacting the customer regularly and reopening old accounts with new account numbers.

Re-Evaluate the Program annually. Ensure that you will re-evaluate the program at least annually and update it as needed. Also include how you plan to train the appropriate staff to identify, detect, respond to and prevent red flags and identity theft.

Before implementing your program, it must get the approval of your board of directors or a member of senior management. The FTC also requires you outline who will be in charge of administering, overseeing and carrying out the program. For help determining whether you need to comply with the Red Flags Rule or for further advice on building your plan, visit the FTC's website. ■

Kris. St. Martin is vice president of CBIZ Insurance Services. Reach him at 763-549-2267 or KStMartin@cbiz.com.

By Chris Riba

Exploring community banking regulatory relief

Following the enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), lawmakers, regulators and banking organizations have increased their focus on right-sizing the regulatory landscape for smaller institutions. The supervisory agencies are currently implementing the community bank leverage ratio and collaborating with the banking industry to identify additional opportunities to streamline regulatory reporting. However, debate continues about whether EGRRCPA went far enough in providing regulatory relief, especially for community banking organizations.

Since taking office as a member of the Board of Governors of the Federal Reserve System, Gov. Michelle Bowman has spoken often about the importance of community banking and appropriately tailoring supervision and regulation. Bowman is the first to fill the Federal Reserve Board position created by statute in 2015 to ensure adequate representation of community banking interests. She is well-positioned for the role, given her post-crisis experience as a fifth-generation community banker from rural Kansas, as well as her recent time serving as the Kansas State bank commissioner.

Gov. Michelle Bowman

Since taking office, Bowman has conducted extensive outreach to hear first-hand the issues affecting community banks and the communities they serve. Bowman also formed a working group of experts from across the Federal Reserve System to conduct a comprehensive review of the Fed's supervision of small regional and community banks. The workgroup is called the Small Bank Supervision Working Group (SBSWG). In recent testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Bowman stated that the SBSWG is "looking for ways to optimize our supervision and regulation to ensure it adapts to the on-the-ground realities of an evolving industry and changing consumer expectations while maintaining the safety and soundness of our banking system."

The Federal Reserve Bank of Minneapolis supports additional changes to community bank supervision and regulation, and contributes to the SBSWG through Senior Vice President Christine Gaffney's role as co-chair. The SBSWG reports directly to Bowman and is distinctly focused on the following responsibilities: 1) Identifying initiatives and preparing proposals for consideration that have the potential to reduce burden, improve supervisory effectiveness, or generate supervisory efficiencies in small bank supervision while maintaining safety and soundness; 2) Consulting and advising Bowman on policy and regulation proposals, with a focus on the capacity of smaller banks to comply with such proposals.

In addition to safety and soundness–related supervision, the SBSWG is assessing the burden of other supervisory activities, including those regarding IT, BSA/AML, Consumer Affairs, Applications, and Enforcement Actions. To further that initiative, Bowman chose group members with varying backgrounds and expertise.

Although the SBSWG will leverage previous Federal Reserve initiatives to reduce burden, the group has been tasked with developing new and innovative approaches to supervision and regulation. These directives align with the Minneapolis Fed's strategies of achieving excellence in core operations and growing a culture of continuous improvement, as well as the Federal Reserve Board's Supervision and Regulation strategic plan themes of being innovative, agile and optimal. The directives also align with the final step of The Minneapolis Plan to end Too Big to Fail, a policy proposal published in December 2017 that recommends allowing "the government to reform its current supervision and regulation of community banks to a simpler and less-burdensome system while maintaining its ability to identify and address bank risk-taking that threatens solvency."

The SBSWG has developed specific recommendations that have followed from initial proposals provided for Bowman's consideration at the end of September, and has begun presenting the recommendations to a subcommittee of the Federal Reserve Board that focuses on smaller regional and community banks. Knowing that implementing changes can be challenging, especially if the changes require interagency or legislative action, Bowman and SBSWG members are engaging key stakeholders to address concerns early in the process. The SBSWG has also seized opportunities to provide relevant input on third party policy and regulation proposals.

The Federal Reserve System is committed to the community bank model and is keenly focused on its continued success. In an age of innovation, the Fed wants to encourage bankers to creatively adapt to the changing environment. The Minneapolis Fed recognizes that regulatory burden has different meanings for different institutions. We would love to hear where you think we can provide further relief, especially those areas that cause the most pain for the least gain. ■

Please send any questions or comments to Chris Riba at christian.riba@mpls.frb.org. Chris Riba is Assistant Vice President in the Supervision, Regulation, and Credit Division of the Federal Reserve Bank of Minneapolis. This piece was adapted from an article published in the Federal Reserve Bank of Minneapolis' Banking in the Ninth publication. Please visit minneapolisfed.org/banking to learn more about banking-related activities at the Federal Reserve Bank of Minneapolis. For additional Banking in the Ninth articles, visit: minneapolisfed.org/publications-archive/banking-in-the-ninth.

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.

▷ Bosshard Financial Group, Inc., La Crosse, Wis., authorized to merge with NorthernBankshares, Inc., McFarland, Wis., and thereby acquire McFarland State Bank. Oregon Community Bank, Oregon, Wis., authorized to merge with McFarland State-Bank, McFarland, and thereby establish branches.

▷ Forsyth Equity Partners, LP, and its general partner Rakesh Alla, both of Rock Island, Ill., filed to acquire 10 percent or more of AmBank Holdings, Inc., and American Bank and Trust Company, N.A, both of Davenport, Iowa.

▷ First Illinois Bancorp, Inc., East St. Louis, Ill., filed to acquire Rockwood Bancshares, Inc., Eureka, Mo., and thereby acquire Rockwood Bank, Eureka.

▷ The Missouri Bank, Warrenton, filed to merge with The Missouri Bank II, Sedalia, and to retain the acquired facilities as branches.

▷ Change in control notice filed by the Karen R. Healy Hurwitt Trust, West Fargo, N.D., and others to retain or acquire 25 percent or more of Lincoln Holding Company, Hankinson, N.D., which controls Lincoln State Bank, Hankinson.

▷ First Midwest Bancorp, Inc., Chicago, authorized to merge with Bankmanagers Corp., Milwaukee, and thereby acquire Park Bank, and for FMB's subsidiary, First Midwest Bank, Chicago, to merge with Park Bank, and thereby establish branches.

▷ Change in control notice filed by Christopher J. Yatooma, Bloomfield Hills, Mich., to acquire Citizens Bancshares, Inc., Ontonagon, Mich., and thereby acquire control of The Citizens State Bank of Ontonagon.

▷ Gale M. Hoese, Glencoe, Minn., filed to acquire 10 percent or more of Redwood Financial, Inc., Redwood Falls, Minn.

▷ Notice submitted by Sam Blackard, Independence, Kan., to acquire shares of First Howard Bankshares, Inc., parent of Peoples State Bank, both of Cherryvale, Kan.

▷ First State Holding Company, Lincoln, Neb., filed to acquire Schneider Bancorporation, parent of Plattsmouth State Bank, both of Plattsmouth, Neb.

▷ First Equity Corp, Skokie, Ill., filed to merge with Northwest Equity Corp, and thereby indirectly acquire 1st Equity Bank Northwest, both of Buffalo Grove, Ill.

▷ New London Bancshares, Inc., New London, Mo., filed to acquire Saints Avenue Bancshares, Inc., Saint Charles, Mo., and Saints Avenue Bank, New London.

▷ Citizens Bancorporation of New Ulm, Inc., New Ulm, Minn., filed to acquire Farmers State Agency of Watkins, Inc., Watkins, Minn.

▷ Central Bank of the Midwest, Lee's Summit, Mo., filed to merge with Platte Valley Bank of Missouri, Platte City, and to establish several branches.

▷ Lynnea Kay Gery, La Grange, Ill., and others filed to acquire 25 percent or more of United Bank Financial Corporation, and thereby control United Bank of Michigan, both of Grand Rapids, Mich.

▷ HYS Investments, Inc., Topeka, Kan., filed to increase its ownership from 26.02 percent to 28.55 percent in BOTS, Inc., parent of VisionBank, both of Topeka.

▷ Notice submitted by Amanda Leigh Palmer, Erie, Colo., to acquire shares of Wheeler County Bancshares, Inc., parent of Ericson State Bank, both in Ericson, Neb.

▷ Central Bank, Storm Lake, Iowa, authorized to purchase branches from MetaBank, Sioux Falls, S.D.

▷ 1895 Bancorp of Wisconsin, MHC, Greenfield, and 1895 Bancorp of Wisconsin, Inc., authorized to engage *de novo* in holding, managing, or liquidating assets owned or acquired from a savings association, in connection with the transfer of branch property to 1895 Bancorp of Wisconsin, Inc.

▷ Katz Acquisition Corporation, LLC, Tampa, Fla., filed to become a bank holding company by acquiring Camp Grove Bancorp, Inc., and its Camp Grove State Bank, both of Camp Grove, Ill.

▷ FCN Banc Corp, Brookville, Ind., filed to acquire DSA Financial Corporation and thereby acquire Dearborn Savings Bank, Lawrenceburg, Ind.

▷ Notice by James Bellinson, Bloomfield Township, Mich., and others to acquire 10 percent or more of Level One Bancorp, Inc., and thereby acquire control of Level One Bank, both of Farmington Hills, Mich.

▷ Notice filed by Karen Neidhardt, Tampa, Fla., to gain control of Bozeman Bancorp, Inc., and thereby gain control of the Bank of Bozeman, both of Bozeman, Mont.

▷ L1 Holding Corporation, Minneapolis, filed to become a bank holding company by acquiring Eagle Community Bank, Maple Grove, Minn., and to engage in mortgage lending activities by acquiring LeaderOne Financial Corporation, Overland Park, Kan.

▷ Notice submitted by The JK Durfee Family Revocable Trust and others to acquire shares and thereby control of Sundance Bankshares, Inc., Sundance, Wyo., which controls Sundance State Bank.

▷ The Apple River State Bank Employee Ownership Plan, Apple River, Ill., with Apple River State Bank, Apple River, Ill., as trustee of the ESOP, filed to acquire 10 percent or more of First Apple River Corporation, Apple River, and thereby control Apple River State Bank.

▷ Change in control notice filed by Jamie Lynn Nelson, Washburn, N.D., to acquire control of 25 percent or more of McLean Bank Holding Company, Garrison, N.D., and thereby acquire Garrison State Bank & Trust, Garrison; Bank of Turtle Lake, N.D., and Farmers Security Bank, Washburn, N.D. ■

New to BHCA

The Bank Holding Company Association welcomes these new Holding company and Associate Members:

Ameriwest Corporation
Omaha, Neb.
Mark Ellerbeck, president
First Westroads Bank, Inc., Omaha

Crosstown Holding Company
Minneapolis
Jon Dolphin, president
Jeff Weldon, Chief Financial Officer
21st Century Bank, Loretto, Minn.

First Berlin BCorp.
Berlin, Wis.
Greg Lundberg, president
Fortifi Bank, Berlin

Marsh & McLennan Agency
John Naughtin
Minneapolis

Marsh & McLennan Agency LLC is a subsidiary of Marsh established in 2008 to serve as a platform for the middle market. In 2015, it expanded its national footprint into Canada. MMA offers commercial property, casualty, personal lines, and employee benefits to midsize businesses and individuals across North America.

MMA helps companies identify, assess, mitigate, prevent, eliminate and finance risk. Our values-driven approach facilitates growth and strengthens companies using comprehensive programs that reduce the cost of organizational risk. MMA professionals are experienced in designing detailed and complex domestic and international employee health and benefits, and business insurance programs around the unique exposures faced by complex organizations.

Accountability Processes, *Continued from page 9*

Unfortunately, I have found it common that companies allow salespeople to make excuses for lack of success. If your company allows for excuses, it is likely that the other sales systems and processes are going to fail. You must be consistent in holding people accountable to the necessary behaviors, disallowing excuses.

To do this, you will hold the following conversation with each RM. “Bill, what will happen if you don’t reach this goal — if you don’t achieve Extraordinary?” Then you will wait for his answer, allowing him to think through the consequences.

In this way, you are asking him to determine what he will adjust, and what the consequences will be if he does not reach goal. Leading each person through this discussion will help the individual to take responsibility for his success or failure. It will also allow you to utilize your accountability systems with more receptivity.

If Bill shrugs his shoulders and says “Oh well, maybe next month/week/year,” you may have the wrong person in this role. If Bill is the right person for this role, he will be scrambling to figure out how he is going to meet his specified goal and he will verbalize his own personal pain by saying something like “I won’t be able to buy a new car.”

Our company uses Objective Management Group’s tools which evaluate selling strengths and weaknesses as well as other critical information in organizations. Approximately 66 percent of the salespeople assessed in OMG’s evaluation process make excuses for lack of performance. This means that they blame the company, the competition or the market, not themselves, for their lack of success. Clearly this is a common issue and a negative one that impacts revenue growth.

There will always be things beyond our control. The object is to control those factors that we are able to control in order to affect success. Make this clear to your sales team. You cannot afford to allow excuses for lack of performance. If you allow one person to make excuses, you will be obligated to let the next do the same and if excuse-making becomes systemic, it will erode the standards you have painstakingly set.

Here is an example and a recommended solution to help your organization create a “no-excuses” environment. Jane has just told her manager that she did not reach her activity goal of phone calls this month because she had an unusual amount of operational support issues upon which she had to spend time. In other words, she is blaming the company.

Your response to an excuse like this should be “Jane, if I did not let you use that as an excuse, what would you do differently?” This strategy requires Jane to take responsibility. Jane must now think through the problem herself and figure out what she must do differently in the future. By asking the question in this manner, you are not allowing her to continue making excuses which lowers her own standards and those of the company.

Excuses come in all forms, so learn to recognize them and utilize the critical question: “If I did not let you use that excuse, what would you have done differently?” See how many times in one week you can use that question and note the results you achieve in a short time. ■

Tony Cole is founder of Anthony Cole Training Group. This essay is excerpted from his book, “The Extraordinary Sales Manager.” For more information, contact Jack Kasel at jack@Anthonycoletraining.com or 614-561-3812.

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companies

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Bank owners,
directors, officers and
vendors who attended
a BHCA event in the
past two years

The BHCA exists to provide education and business connections critical to the vitality of bank holding companies.

Insights | Networking | Seminars

CONTACT US!

Tom Bengtson, *Managing Director*

800-813-4754 or info@thebhca.org

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MAY 4-5 | **SPRING SEMINAR**

OCTOBER 5-6 | **FALL SEMINAR**

OCTOBER 27 | **DALLAS SEMINAR**

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