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# Bank Owner

Bank Holding Company Association Magazine



*2020*

## FALL DIGITAL SYMPOSIUM

*October 5-8*

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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](mailto:info@thebhca.org).



## CONTENTS

### Columns:

President's Observations:

The Pandemic has changed the meaning of 'Business as Usual' ..... 4  
*By Harry Wahlquist*

Down to Business:

BHCA active with work designed to deliver value to our great members .....5  
*By Tom Bengtson*

### Features:

How CRM Helps the Financial Industry ..... 6  
*By Tim Fargo of Wipfli*

Reconsidering Lessons From The Previous Crisis ..... 10  
*Barack Ferrazzano Kirschbaum & Nagelberg*

Did Everyone Take Their Vacation This Summer? ..... 11  
*By Craig Collins of OneBeacon Financial Services [Intact]*

### Departments:

Associate Member Listing ..... 2

Speaker line up and schedule for 2020 Fall Digital Symposium.....8

Registration form for 2020 Fall Digital Symposium .....9

Fed Notes:

A look at merger and acquisition applications during the pandemic.....14  
*By Mike Scott*

Holding Company Transaction Report..... 18

# The Pandemic has changed the meaning of 'Business as Usual'

I've been in banking a long time and I am quite sure I have never seen so much change in such a short amount of time as I have seen in the last six months. The Covid-19 pandemic has completely unended our industry, if not the entire economy.

Like all banks, we have had to take several steps to insure the safety of our employees and customers. For example, many of our employees are working from home. I recently read a survey by *Bank Director* magazine that noted two years ago only 29 percent of banks had policies to accommodate telecommuting. Today, that figure is at 80 percent.

Furthermore, we have installed plexiglass barriers at teller stations and other locations where people interact. We have closed lobbies at some of our ten locations, while reducing hours at others. We now encourage customers to set up appointments to see our personal bankers. We have rotating teams staffing our branches to mitigate the impact of possible exposure to the virus. And we are using digital screen sharing services to conduct many meetings that we used to conduct in person.

It would be foolish to think that we are going back to "business as usual" anytime soon. Many of the steps we are taking now to manage the pandemic will become permanent parts of the business landscape. In some situations, it may turn out that working from home is better than working at the traditional office. For some banks, that might mean savings on leases and rent. On the other hand, as companies all across the business landscape pair back on their facilities needs, we will see commercial real estate values drop and that could make a big impact on an important loan category for many community banks.

The work-from-home trend also has important implications for the IT department. Employees working remotely need to be able to access bank systems, and the connections need to be secure. And what do you do when your employee with the big desk-top machine needs to work from home? Many banks increasingly are going with laptop computers so employees can easily carry them home if they need to.

Training also is a big issue. It has always been important to recruit good people, but now you really have to be creative about how to handle the training if the employee will be working from home, or if the person who would typically provide the training is working from home. Digital meetings are fine but they make it difficult to ask questions spontaneously. At the office it might be easy to ask someone at the next desk over for some advice, but when working remotely one needs to work much more deliberately to get the answers you need.

The start of the new school year is right around the corner and it poses all kinds of challenges for any parent in the workforce. Parents have to make difficult decisions about how to educate their kids in light of distance and hybrid learning options. Some kids thrive in a digital environment, but some don't. Undoubtedly, employers everywhere will be impacted by workers who decide they need to change their work arrangements in order to accommodate the educational needs of their children.

While we have needed to adapt at Star Bank and Midwest Bancorporation, we have also needed to adapt at the Bank Holding Company Association. The board has not been able



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

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President's Observations, Continued on page 12

# BHCA active with work designed to deliver value to our great members

The Covid-19 pandemic has caused a dramatic recession, roiling the economy like nothing else in my lifetime. Activity at many businesses and organizations has slowed, or even ground to a halt. While the BHCA elected to cancel its Spring events, we have remained very busy through the summer and intend to continue to deliver value for your membership despite the unprecedented circumstances in which we find ourselves.

On August 5, the BHCA launched a completely updated website at [www.theBCA.org](http://www.theBCA.org). If you have not seen it, I invite you to visit the site and explore. You might know that the BHCA has had a website only since 2011. Since then, we have posted articles from our membership magazine, reports from our events, and lists of our members. We provide general membership information and at one point we even posted several testimonial videos. But as time went on and we learned more about how people actually use the website, it became obvious that an update was needed.

When you visit the redesigned site, I hope you will be immediately struck by the visual impact of the display. The images fill the entire width of the screen, and we have decluttered the display making it easier to read the text and navigate to subsequent pages on the site. The messages that move across the main display area of the website draw attention to our most current developments, usually an upcoming event. One of the most important roles of the website is to serve as the registration site for our events, and you will see information about our Fall Symposium rotating with two other messages. Serving both members and potential members, the site

provides information about how to join the association.

Located in the upper right corner of the website is a discrete member login icon which provides BHCA members with access to association information. We make information about our Associate Members available to all members, but information about our holding company members is limited to other members only. Through this “members only” area, you can view your own information, making updates as appropriate. And, you have easy access to information from other members, making it possible for you to connect by phone or email. Networking has always been an important benefit of BHCA membership and we know the website plays an important role in that.

The site also includes a section called “Intelligence,” and I hope you will bookmark it so you can check back to this page frequently. This is a page where we will collect informational resources that you may find useful as a holding company officer or bank owner. It includes the current issue of *Bank Owner* magazine and all of our past issues. We have pulled out our Fed News column, making them easy to search and reread. This is the column provided exclusively to the BHCA by the Federal Reserve Bank of Minneapolis. And, we have created a place on this page to highlight some of the more interesting articles posted by our Associate Members on their websites. Many of the firms that join the BHCA are nationally-renowned experts producing highly informative articles, case studies and analysis. We highlight them here. If you are a BHCA Associate Member, I encourage you to give me a “heads up” whenever you post

something you believe should be shared with the BHCA membership. We are very pleased to serve as a platform for facilitating more interaction between our holding company and Associate Members.

I want to give a shout out and a big thank you to three people who really made the website come to life. First, our designer on staff at NFR Communications, Taylor Cabine; NFR Chief of Staff Jackie Hilgert and our consulting web specialist Craig Berry. They took this project way beyond what I thought was possible in a short amount of time.

## Fall Symposium Set

BHCA members have come to expect great programming in the fall and 2020 is no exception. While we cannot deliver a traditional face-to-face meeting in a hotel as we have for nearly 40 years, we can still deliver great education from industry experts and leading bankers. The BHCA is presenting the 2020 Fall Digital Symposium Oct. 5-8. For four days in a row, we will present 90-minute sessions starting at 1:30 p.m. Each day will focus on a different theme. Monday is for M&A; Tuesday is for Profitability; Wednesday features a regulatory panel, and Thursday is for Outlook, featuring both an economic outlook presentation and a political outlook presentation.

**Down to Business, Continued on page 12**



By Tom Bengtson  
BHCA Managing Director

# How CRM helps the financial industry

Mobile banking. Videoconferencing. Push notifications.

In the financial sector, clients might already have been embracing technology at a steady clip but the novel coronavirus pandemic has accelerated the pace of adoption. While a few financial institutions are scrambling to cover up the inefficiencies such a tech pivot has exposed, the pandemic has also shown that now is the time to reboot the technology conversation — and focus it squarely on the client.

One of the strongest tools financial institutions can use is a customer relationship management (CRM) platform.

## CRM is the right tool for now

Yes, banking and wealth management clients are increasingly leaning on technology to communicate with financial institutions. They're also doing so through a number of channels: mobile devices, desktop, SMS messaging and video chats. For the industry, the glut of data presents a challenge — and an opportunity.

If financial institutions could corral every one of these transactions into one unified profile for every client and then add on additional information — life stage (new marriage, new baby, retirement); past loans, portfolio assets and more — clients would get a richer and more contextualized banking experience.

Which is exactly what they want. Clients are increasingly demanding financial advice that addresses their specific situation and needs; ho-hum generic offerings miss the mark.

## What CRM makes room for

The CRM's comprehensive approach to data gathering enables richer client experiences through every channel or communication method, whether it's a smartphone or through a chat. Clients are interested in quality services that are convenient and secure and this is what CRM helps advisors deliver.

On the other side of the fence, it empowers financial advisors too. Using even more advanced technologies

such as artificial intelligence allows CRM to take care of the grunt work and research that underpins every client-advisor relationship.

The technology advances discussions beyond mere product recommendation and selection to develop a more credible and trust-based relationship. Equipped with a better “view” of the client, the advisor can now speak with empathy and develop a client-centric service model.

CRM is especially good at doing the heavy lifting behind the scenes but making room for the humans at the center of the conversation. The technology is about the human touch that advances a greater level of care.

CRM leads to that much sought-after currency: client loyalty.

## The post-pandemic world

Management consultant Peter Drucker once said that only marketing and innovation produce results. The rest are costs. In the financial sector, innovation is producing results. The behavioral constraints in the wake of the pandemic have rebooted how clients view technology. It is making the industry innovate to keep up with changing client demands.

CRM is one of the pillars of such innovation. It's been a steady workhorse for a long time but its ability to act as a foundation for new technologies is helping craft a new platform for today's needs.

Equally important, the CRM's ability to drink the non-stop flow of data from the firehose and provide crucial insights is making it a reliable partner for the financial advisor. The client has always been key but CRM enables institutions to realize that vision faster — and more efficiently — than ever before.

Leverage leading-edge CRM technology to optimize customer engagement and experience while gaining actionable insights. ■

*Tim Fargo is a principal with Wipfli. He can be reached at [tim.fargo@wipfli.com](mailto:tim.fargo@wipfli.com).*



2020

# FALL DIGITAL SYMPOSIUM

*October 5-8*

The 2020 Fall Digital Symposium offers four days of essential industry education designed to help bank holding company officers, directors, and bank owners like you weather these uncharted waters. The BHCA has put together a groundbreaking four-day event that will help you position your organization for success through the remainder of the year and well into the future.

We offer six hours of education from top industry consultants, bankers, regulators and other experts. Fifteen presenters will offer insight over four 90-minute sessions scheduled for 1:30 to 3:00 p.m. each day Oct. 5-8. The all-digital sessions will be delivered right to your computer, with ample opportunity for you to ask questions. Each day is devoted to a theme: M&A on Monday, Profitability on Tuesday, Regulatory Panel on Wednesday and Outlook (economic and political) on Thursday.

The 2020 Fall Digital Symposium is like no other BHCA event. The online format makes it practical to include many more people from your organization. Without the travel time and lodging expense, the 2020 Fall Digital Symposium is likely to be the most economical industry event you've ever attended. Be sure to check out our special member pricing which makes it particularly economical to register four or more people from the same organization. Not a BHCA member? Call today 1-800-813-4754 for membership information. This may be the opportunity to join that you have been waiting for!

In addition to timely and useful information, your Fall Digital Symposium registration means you'll receive an informational packet prior to the event filled with session handouts, attendee list, sponsor information and other documents that will help you make the most of the event. The packet may even include a fun surprise. Whether you register for the entire Symposium or only one day, you will find this BHCA event to be a great value. So don't delay; **register today!**



**Curtis Carpenter**  
The Hovde Group



**Tom Hershberger**  
Cross Financial



**KC Mathews**  
UMB Financial



**Dr. David Schultz**  
Hamline University

**ALSO:** Tim Kosiek, Baker Tilly; Jon Hendry, Alerus Financial; **Regulators from the Fed**, the FDIC, the OCC, Conference of State Bank Supervisors, and the Minnesota Department of Commerce

**Plus:** Bankers from Iowa, Montana and Wisconsin share their M&A insights

## MONDAY, OCTOBER 5

1:30 **The Community Bank M&A Landscape:**  
TO **the Impact of the Pandemic and other Factors**  
2:10  
Curtis Carpenter and Kirk Hovde, The Hovde Group.  
*This M&A overview from experts at one of the nation's leading investment banking firms provides a deep analysis of the current environment for buyers and sellers.*

2:15 **Acquirers' Panel: Three Deals**  
TO **that Happened and One that Didn't**  
3:00  
Hear from our panelists:  
Greg Kistler, Central Bancshares, Inc., Muscatine, Iowa  
Mike Daniels, Nicolet Bancshares, Inc., Green Bay, Wis.  
Peter Johnson, Eagle Bancorp, Helena, Mont.  
*An Up-close look at deals in three states: Central Bancshares' acquisition of Walcott Trust & Savings Bank; Nicolet Bankshares' deals to buy Advantage Community Bank of Dorchester, Wis., (which closed this summer) and Commerce State Bank of West Bend, Wis., (which was called off this spring); and Eagle Bancorp's deal to purchase Western Holding Company of Wolf Point, Mont.*

## TUESDAY, OCTOBER 6

1:30 **Stabilize Core Earnings By Reinforcing Existing Relationships**  
TO Tom Hershberger, Cross Financial  
2:00  
*The banking industry can expect asset quality issues as the pandemic and slow economic recovery begin to impact business cash flows. What are the anchors that bankers should be managing to minimize potential losses. The foundational answer is already at the bank...current customers and core earnings. Today is the perfect time to develop your relationship retention strategies.*

2:05 **Data: The Foundation of a Successful Strategic Plan**  
TO Tim Kosiek, Baker Tilly  
2:25  
*Customers give their banks a lot of data about their financial needs and habits. Coupled with other forms of publicly available information, this customer data is the key to developing a strategic focus that will take your bank to the next level of profitability.*

2:30 **The MY ALERUS Story**  
TO Jon Hendry, Alerus Financial  
3:00  
*The Chief Information Officer explains how he created a digital banking app that helps customers make smarter decisions "that'll turn financial stresses... into confidence." The personal financial hub helps customers manage financial challenges such as overcome debt and save for retirement.*

## WEDNESDAY, OCTOBER 7

1:30 **Industry Challenges from the Regulators' Point of View**  
TO Hear from regulatory panelists:  
3:00 Christine Gaffney, SVP, Supervision, Regulation & Credit, Federal Reserve Bank of Minneapolis  
James LaPierre, Regional Director, Kansas City Region, FDIC  
Brian James, Deputy Comptroller, Central District, OCC  
Max Zappia, Deputy Commissioner of Commerce, State of Minnesota  
Melanie Hall, Conference of State Bank Supervisors, Montana Division of Banking  
*How has the pandemic and recession affected the outlook of the banking industry regulators? We have assembled representatives from the regulatory agencies to give us a first-hand account.*

## THURSDAY, OCTOBER 8

1:30 **The Great Adaptation – The Road to Recovery**  
TO KC Mathews, UMB Financial  
2:15  
*After a severe recession due to a global societal shock, a public health crisis, we are adapting and now on the road to recovery. What will the recovery look like? How will we adapt? Gain insights into the trends impacting the economic environment and obtain information to help make effective planning and investment decisions during this engaging presentation.*

2:20 **The Political Landscape: An In-Depth Look**  
TO Dr. David Schultz, Hamline University, St. Paul, Minn.  
3:10  
*The 2020 elections are shaping up like no other election cycle in U.S. history. Elections are always touted as "the most important ever" but this time it may actually be so.*



The four-day Fall Digital Symposium is affordably priced at \$249 per person for BHCA members. If you prefer, single day registrations are available at \$89 per person. Discounts are available for registrations that exceed three persons from the same member institution. Non-member pricing is \$349 for the entire four-day Symposium, or \$129 per person for a single day.

A packet of materials to supplement each presentation will be sent to registrants prior to the event.

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**MONDAY ONLY**  
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**TUESDAY ONLY**  
 THEME: Profitability

BHCA MEMBER RATE

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NON-MEMBER RATE

**\$129**  
PER PERSON

**WEDNESDAY ONLY**  
 THEME: Regulatory Landscape

BHCA MEMBER RATE

**\$89\***  
PER PERSON

NON-MEMBER RATE

**\$129**  
PER PERSON

**THURSDAY ONLY**  
 THEME: Outlook

BHCA MEMBER RATE

**\$89\***  
PER PERSON

NON-MEMBER RATE

**\$129**  
PER PERSON

\*Beyond three registrations, additional people may attend for \$45/person.



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			Number	Amount
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Tuesday Only (Oct. 6):	Members	\$89	_____	_____
	Non-Members	\$129	_____	_____
Wednesday Only (Oct. 7):	Members	\$89	_____	_____
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Thursday Only (Oct. 8):	Members	\$89	_____	_____
	Non-Members	\$129	_____	_____

To register more than three people, please call 952-835-2248

This event is non-refundable. If you register and cannot attend, a credit can be applied to a future BHCA event. Substitutions can be made in writing to Paula@theBHCA.org.

# Reconsidering lessons from the previous crisis

Banks learned many difficult lessons during the previous financial crisis, particularly involving the need to be vigilant about strategy, planning, and governance. Although banks and their customers have been affected very differently in many respects during the current Covid-19 (coronavirus) crisis, those lessons from the past, which are summarized below, should now be reconsidered in light of the ongoing pandemic and its likely effects over the coming months and perhaps years.

**Board engagement** — During the current crisis, much like the last recession, bank boards are now becoming more engaged. They are rightly asking for more information and, because of the severity of the crisis and the rapidity of its onset, are seeking that information on a more timely basis. Although boards should be careful not to usurp the management role of their executive teams, it is appropriate that directors enhance their oversight role. This will better position them to fulfill their fiduciary duties, properly assess risk, and re-evaluate the risk tolerance of their institutions.

**Policies** — Regulators will carefully scrutinize the extent to which banks follow their own policies, and being in a crisis will be no excuse for significant deviations from board-approved risk expectations. Accordingly, banks should re-evaluate their policies in light of any pandemic-related operational changes, such as those involving SBA PPP loans, loan modifications, and troubled debt restructurings.

**Stress testing** — Stress testing is a necessary component of a bank's risk management process, but any such efforts conducted before the pandemic might now be stale. Banks need to revisit their stress testing models to account for the probable effects of the pandemic, including the impact to particular industries in their portfolios that are most likely to be negatively impacted.

**Capital planning** — Banks should evaluate their capital options well before the time they may actually need them. The results of their updated stress testing will dictate the degree to which each bank may need to explore sources of capital, such as around the board table, from friends and family, or using the public market. Banks also should understand the current environment to evaluate properly the different types of capital options, such as subordinated debt and stock issuances. With interest rates at historically low levels, subordinated debt is emerging as a very attractive option to many organizations, even those that currently have adequate capital.

**Dividend, stock redemptions and stock repurchases** — As described in the Federal Reserve's SR 09-4 guidance, banking organizations should consult with the Federal Reserve and take into account certain factors when considering the payment of dividends, stock redemptions, and stock repurchases. Those include the following factors, the evaluation of which should

be memorialized in any board discussion of these actions:

- *Overall asset quality, potential need to increase reserves and write down assets, and concentrations of credit;*
- *Potential for unanticipated losses and declines in asset values;*
- *Implicit and explicit liquidity and credit commitments, including off-balance sheet and contingent liabilities;*
- *Quality and level of current and prospective earnings, including earnings capacity under plausible economic scenarios;*
- *Current and prospective cash flow and liquidity;*
- *Ability to serve as an ongoing source of financial and managerial strength to a subsidiary bank and the condition of that bank;*
- *Other risks that affect the institution's financial condition and that are not fully captured in regulatory capital calculations;*
- *Level, composition, and quality of capital; and*
- *Ability to raise additional capital in prevailing market and economic conditions.*

Those factors all should take into account the unique and evolving challenges presented in the current environment.

**Examinations and enforcement actions** — A more challenging economy generally translates into more intrusive regulatory examinations, which means a greater likelihood for enforcement

**Lessons, Continued on page 14**



## Did everyone take their vacation this summer?

Vacations provide several benefits to both employees and employers. Employees come back from vacation refocused on the tasks at hand, while the employer benefits by having motivated and refreshed employees. Vacations are necessary for all parties involved.

What's common in the banking industry is temptation. Bank employees are surrounded by opportunities for dishonest acts, teller shortages, CD documentation fraud, fictitious loans, and unauthorized account transfers are all exposures that are unique to the banking industry.

Internal controls such as segregation of duties, job rotations, and internal audits are great methods of both discovering and preventing these acts, but the best control to prevent and discover employee dishonesty is a vacation.

### Why is it Important?

Most dishonest schemes start out relatively small. In fact, the dollar amount remains relatively stable for the first couple of years. As time passes, however, a dishonest employee becomes emboldened since he/she has not been caught and starts to increase the amount taken from the bank - sometimes dramatically. The amount can grow to millions of dollars over a relatively short period of time.

During my 32 years of underwriting fidelity insurance for banks, I have seen many employee dishonesty losses. The largest ones have been discovered while the employee was on a mandated vacation (dishonest employees do not like to take long vacations), or on an unplanned leave from the bank (perhaps due to a serious illness). The scheme will start to unravel when the employee is cut off from access to the bank's systems and is not able to continue covering his/her tracks. Customers that normally only speak with the dishonest employee ask account ques-

tions of another employee, who starts to investigate and the scheme unwinds.

### Employee Warning Signs

- *Employee is resistant to taking vacations lasting more than two or three days.*
- *Employee is highly protective of their work product.*
- *Employee resists change to their work process or job duties.*
- *Employee comes into their working environment during their vacation.*
- *Employee directs customers to channel their questions only to them.*

### Vacation Policy Suggestions

Require that all employees take a vacation that spans five consecutive work days and two weekends on each side (nine days total out of the bank).

Do not allow employees to enter their work area during their vacation. Any banking transaction can be done via the drive thru or ATM.

Disable VPN or any "work at home" technology that the employee may be using during the vacation period.

Disable the access card or key that the employee uses for the duration of the vacation period.

It is understood that in today's workplace there is a need for flexibility in work schedules for employees. However, the banking industry has unique risk factors that must be addressed. Vacation has tremendous benefit to the well-being of employees, but serves as the best deterrent and early detection of employee dishonesty.

Enjoy your time off. ■

*Craig Collins is president of OneBeacon Financial Services/Intact. He can be reached at [ccollins@onebeacon.com](mailto:ccollins@onebeacon.com).*

### **President's Observations, Continued from page 4**

to meet in person since February, but we have had several productive meetings via phone and Zoom. The pandemic has very much influenced our decisions, as we decided to cancel our spring events, and we have decided to go to an all-digital format for our Fall event. We are making these decisions because we prioritize the health and well-being of our membership. We would love to be able to present our traditional in-person events with the networking and all the great face-to-face interaction typical of a BHCA event. Be sure to read about the 2020 Fall Digital Symposium we have planned for Oct. 5-8. We have assembled a tremendous group of presenters.

I am confident that our digital events will be a great source of relevant and timely information but I acknowledge they are

not able to deliver the personal experience many of us want from industry meetings. I am hopeful that we will be able to get back to in-person meetings by 2021, but I think we all have to be prepared that we may be restrained by this pandemic for a long time.

My daughter Katie Wahlquist, who is the bank's chief administrative officer, put it like this in a recent interview with *Bank Director*: "How we shop and how we learn, how we communicate, and how and where we work — it could forever be changed. We are embracing technology and new ways [of doing things] and realizing that employees can do a great job working outside of the bank's walls, and they can still be productive and successful. Whether that continues, TBD, but it was a very important revelation for us to have right now in our history." ■

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### **Down to Business, Continued from page 5**

You will find more information, including specific speakers and session titles, elsewhere in this magazine. Please study carefully. We are selling registrations for the entire seminar, but we also understand that some people may want to participate on only one, two or three days. You have that option, as we have set up our registration to accommodate any combination of days. BHCA members even get a discounted registration rate if more than three people from the same organization register. So invite all your directors, holding company officers and many others on your staff to some or all of the Symposium. It will be the best professional education experience you get all year.

I want to acknowledge our Fall Symposium sponsors. We are all in uncharted waters so I sincerely appreciate the support of these fine companies. Their sponsorship makes it possible for us to team up with the best technology people in the business. We are committed to delivering a great participant experience with clear streaming digital images, crisp sound, and professional accompanying documents. We will be recognizing our sponsors throughout the event and I hope you give them a word of thanks next time you see any of them in person.

### **National Directory**

By now, you should have received in the mail a copy of the 2020 national directory of Bank Holding Companies published by the Bank Holding Company Association. This document, prepared with the assistance of the Federal Reserve Bank of Minneapolis, is a useful list of holding companies across the country. Divided according to states, each list includes bank subsidiaries of each holding company.

Based on Dec. 31, 2019 data, the directory shows 3,873 holding companies in the country, down 160 from the 4,033 holding companies shown in the previous directory. Most states showed a decline in the number of holding companies during the last year — Missouri was down 19, Illinois was down 17, Wisconsin was down 10, and Iowa was down eight. As you might expect, most of the holding companies are one-bank holding companies. At the end of 2019, there were 229 multi-bank holding companies in the country, down from 249 a year earlier. Minnesota leads the country with 24 multi-bank holding companies.

We created the directory in 2019 and we are pleased to publish the second annual edition. It is an obvious product for an association such as the BHCA to produce. If you have comments on the directory — perhaps information that you would like to see included in future editions — please send me a note: [Tom@theBHCA.org](mailto:Tom@theBHCA.org)

### **Membership Directory**

Also, you should have received in the mail recently your 2020-21 BHCA membership directory. This is a handy-size print directory that you can carry in your briefcase or keep within arm's reach so you can easily contact another member — maybe the person you visited with at the last seminar, or maybe the Associate Member who wrote the article you just read in *Bank Owner*.

We have an online directory on the website, but we know many people like to see a printed directory also. The advent of digital media doesn't mean that print goes away; usually it means consumers now get their choice to see information either in print or online. At the BHCA, we are happy to give our members what they want in all forms that make sense. ■

# A look at merger and acquisition applications during the pandemic

The coronavirus pandemic has had a significant impact on the American economy, which in turn has impacted mergers and acquisitions activity. Although the Federal Reserve System continues to process M&A applications involving banking organizations, there has been a general slowdown in M&A activity in recent months. Additionally, while the FRS always has rigorously reviewed the financial factors in these proposals, pandemic-related uncertainty regarding the current condition and future financial prospects of banking organizations involved in an M&A proposal has prompted additional information gathering and analysis during the application review process. Finally, practical application processing challenges and considerations have arisen because many Federal Reserve System staff and other stakeholders involved in the application process are working remotely.

## Pandemic's impact on M&A activity

There has been a slowdown in M&A activity among banking organizations during 2020. The Federal Reserve Bank of Minneapolis has received five final expansionary M&A application proposals during the first seven months of 2020. This represents an approximate 40 percent reduction in M&A applications activity compared to the same period in 2019, when nine expansionary applications were received. These figures include state member bank merger applications and holding company acquisition applications. This is generally consistent with the slowdown in M&A applications received by the FRS nationwide.

Even with proposals for which regulatory approval is sought, the pandemic has introduced uncertainty. We have seen several M&A proposals that have been delayed or abandoned so the parties can renegotiate the purchase price, discuss terms, or consider whether a transaction is still feasible.

## Considerations for M&A proposals

Given the uncertain impact of the pandemic on the financial condition and future prospects of banking organizations, it is more important than ever for applicants and regulators to thoroughly analyze financial factors associated with expansionary M&A proposals.

When considering M&A proposals, banking organizations should assess the pandemic's potential to have adverse impacts on key elements of the organization's health, such as capital, liquidity, and asset quality. Applicants should also assess these elements in the context of due diligence of target organizations in order to more fully understand the potential risks of a particular acquisition.

Applicants should expect they will need to provide information so that Reserve Bank staff can understand the applicant's evaluation of the pandemic's potential impact on an M&A proposal. In some instances, review of this information may result in longer processing times. Some of the information that applicants should address thoroughly in an application would include:

- The most recent quarter's pro forma financial information, with a full explanation of the reasonableness of adjustments and assumptions.
- Updated asset quality analysis including, but not limited to, exposure to specific sectors of the economy, such as energy, commercial real estate, residential and consumer lending, and the hospitality industry.
- Assessment of capital adequacy (including capital conservation measures) and earnings, given current and potential deterioration in economic conditions.
- The potential impact of economic conditions on the proposed transaction, including contract changes, purchase price, business strategy or staffing, integration plans, and any anticipated changes to the transaction closing date.

## Processing considerations — pre-filing process and electronic filing

Given the challenges of pursuing an M&A proposal during the pandemic, applicants may want to have the Reserve Bank review certain aspects of a proposal before they file a final application. This can be done by using the pre-filing process to provide information to and receive feedback from an applicant's local Reserve Bank. For details on the pre-filing process, please refer to SR 12-12 / CA 12-11 (Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Nonbank Acquisitions and Other Proposals), which can be found at <https://www.federalreserve.gov/supervisionreg/srletters/sr1212.htm>. Applicants may also contact local Reserve Bank staff to discuss the pre-filing process.

Since many of the prospective applicants, Reserve Bank staff, and other stakeholders involved in the applications process are working remotely during the pandemic, applicants should file M&A applications electronically rather than using paper mail. The FRB Minneapolis continues to accept applications through our electronic applications platform (E-Apps). Refer to [https://www.federalreserve.gov/supervisionreg/afi/eapps\\_sign\\_up.htm](https://www.federalreserve.gov/supervisionreg/afi/eapps_sign_up.htm) for further information on signing up to file an application through E-Apps. The FRB Minneapolis also is currently accepting applications filed by email on a temporary basis. Email submissions for applicants located in the Ninth Federal Reserve District may be sent to FRB Minneapolis M&A staff at [mpls.src.merger-sandacquisitions.smb@mpls.frb.org](mailto:mpls.src.merger-sandacquisitions.smb@mpls.frb.org). ■  
*Mike Scott is a senior M&A analyst for the Federal Reserve Bank of Minneapolis.*

# 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.

- ▷ Michael Kaufman, as trustee of The Michael Kaufman Living Trust, filed to be added to the group which is acquiring control of Waterman Acquisition Group, LLC., Wilmette, Ill., and thereby acquiring Waterman State Bank, Waterman, Ill.
- ▷ Frandsen Bank & Trust, Lonsdale, Minn., filed to merge with Peoples Bank Midwest, Hayward, Wis., and establish branches.
- ▷ Hoyne Savings, MHC, Chicago, and Hoyne Financial Corporation filed to (1) acquire Loomis Federal Savings and Loan Association, Chicago; (2) for Hoyne Savings, MHC, to acquire control of the newly formed Hoyne Interim Bank; (3) for Loomis and Hoyne Savings Bank (the applicants' existing subsidiary) to merge into Hoyne Interim Bank; and (4) for Hoyne Savings, MHC, to transfer ownership of Hoyne Interim Bank, to be known as Hoyne Savings Bank, to Hoyne Financial Corporation.
- ▷ Waumandee Bancshares, Ltd., Waumandee, Wis., authorized to acquire shares of Union-Bank of Blair, Wis.
- ▷ Forward Mutual Holding Company and Forward Financial, Inc., filed to convert from bank holding companies to a mutual holding company and a mid-tier stock savings and loan holding company, respectively, through retention of Forward Bank, a state savings bank, all of Marshfield, Wis.
- ▷ Mark R. Law, Sioux Falls, S.D., and Susan Berger Law, Oakland, Calif., filed to acquire shares of DCNB Holding Company, Clear Lake, S.D. DCNB Holding Company controls DNB National Bank, Clear Lake.
- ▷ Security Financial Services Corporation, Durand, Wis., filed to acquire Jackson County Bank, Black River Falls, Wis.
- ▷ Notice filed by Christopher S. Grant, Ann Arbor, Mich., to join a group that is acquiring 10 percent or more of Arbor Bancorp, Inc., and thereby acquiring Bank of Ann Arbor.
- ▷ Notice filed by Nancy Toppenberg, Newton, Iowa, with a group, to acquire more than 10 percent of First State Bank Holding Company, and thereby control First State Bank, both of Lynnville, Iowa.
- ▷ Katz Acquisition Corporation, LLC, Tampa, Fla., filed to become a bank holding company by acquiring Camp Grove Bancorp, Inc., and indirectly acquiring Camp Grove State Bank, both of Camp Grove, Ill.
- ▷ Notice filed by S.C. Investments, L.P., Palatine, Ill., to join the Fitzgerald family control group, to retain and acquire 25 percent or more of LaSalle Bancorp, LaSalle, Ill., and thereby control Hometown National Bank, LaSalle.
- ▷ Park Financial Group, Inc., Minneapolis, filed to acquire an additional 51.54 percent, thus increasing its ownership to 100 percent, of Mesaba Bancshares, Inc., Grand Rapids, Minn., and thereby acquire American Bank of the North, Nashwauk, Minn., and The Lake Bank, Two Harbors, Minn.
- ▷ ChoiceOne Bank, Sparta, Mich., filed to merge with Community Shores Bank, Muskegon, Mich., and thereby establish three branches.
- ▷ Cheyenne Banking Corporation, Cheyenne, Okla., filed to acquire Laverne Bancshares, Inc., parent of Bank of Laverne, both in Laverne, Okla.
- ▷ Frederick Michael Butler, Stigler, Okla., filed to retain shares of, and thereby control, Stigler Bancorporation, Inc., Stigler, Okla. Additionally, Butler and others filed to retain/acquire shares of the company and become approved members of the Butler Family Group.
- ▷ Tri Valley Bancshares, Inc., Talmage, Neb., filed to acquire by merger 100 percent of Eagle Bancshares, Inc., parent of Eagle State Bank, both in Eagle, Neb.
- ▷ Notice filed by Aaron C. Espinoza (individually and as owner of ACE Investments, Newburg, Mo.) and others to acquire control of Newburg Insurance Agency, Inc., Rolla, Mo. ■

## Lessons, Continued from page 10

actions. Banks should be proactive about managing the examination process, addressing issues promptly, and taking all possible steps to avert enforcement actions, which can restrict strategic transactions, create public relations issues, and increase compliance costs. Banks also should be prepared to adjust to new off-site examinations and the challenges these entail, such as the loss of face-to-face contact, the increased difficulty of addressing issues in real time, and the greater need for comprehensive documentation.

*Litigation risk* — Banks can mitigate their litigation risk by adopting clear and transparent procedures. They should implement effective training for their employees to ensure that these procedures are applied consistently. Banks also should ensure that any changes in accountholder fees, agreements, and policies are clearly communicated to customers and are easily accessible to them, such as through the bank's website. ■

*This article is provided by Barack Ferrazzano Kirschbaum & Nagelberg, with offices in Chicago and Minneapolis. The firm is a BHCA Associate Member.*

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