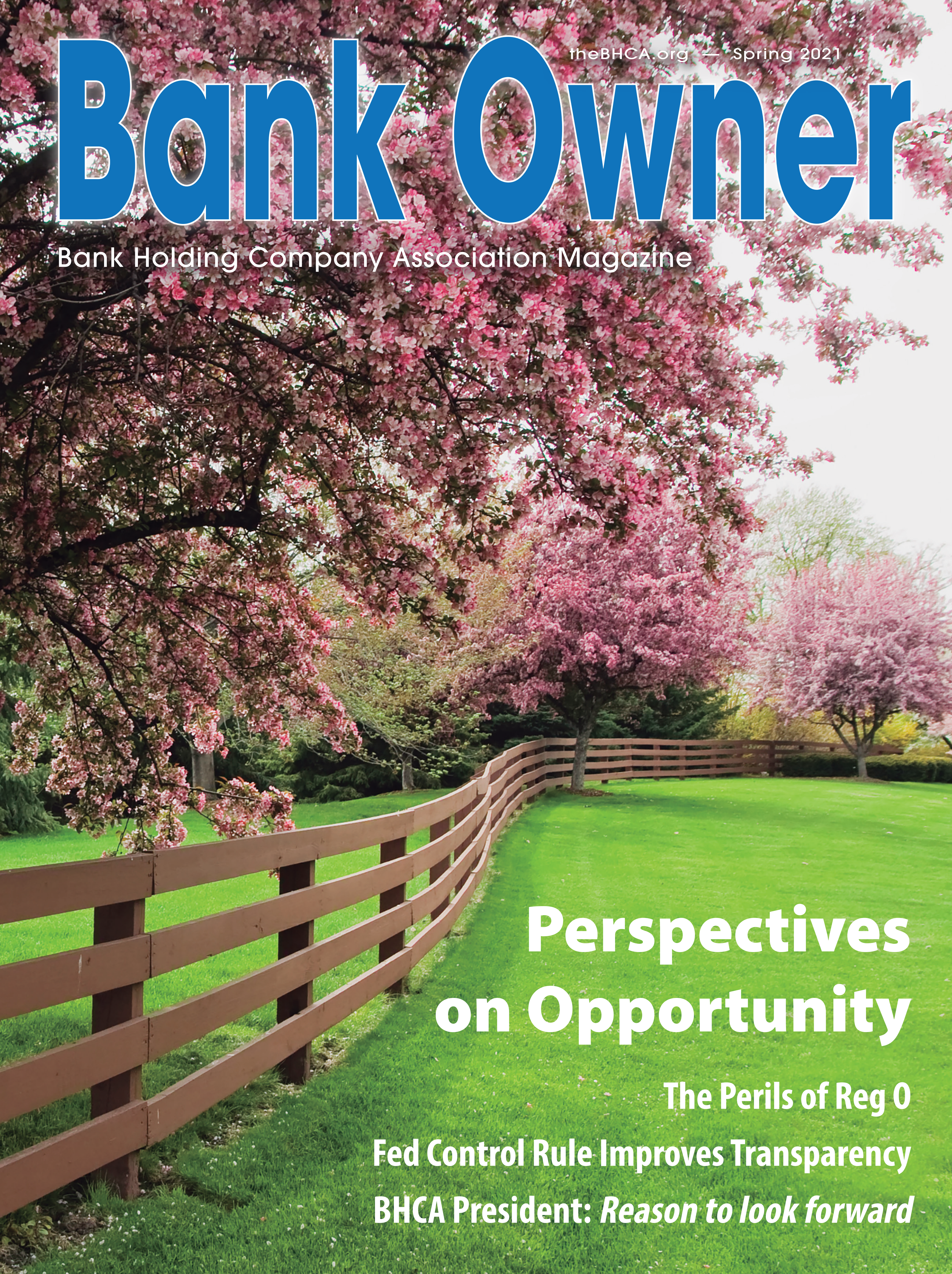

theBHCA.org — Spring 2021

Bank Owner

Bank Holding Company Association Magazine

Perspectives on Opportunity

The Perils of Reg O

Fed Control Rule Improves Transparency

BHCA President: ***Reason to look forward***

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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 at 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 HOLDING COMPANY ASSOCIATION

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Bank Owner

Spring 2021

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BHCA gives us reasons to look forward to meeting again when pandemic lifts

By Mary Jayne Crocker
Bridgewater Bancshares, Inc.
Bloomington, Minn.

There are many reasons to look forward to the year ahead, one of them hopefully being the opportunity to gather in person once again. For 40 years the Bank Holding Company Association has brought bankers together with the mission to provide education and business connections critical to the vitality of bank holding companies. In 2020, we were forced to think differently about how to achieve this objective. Technology and your willingness to adapt allowed the BHCA to provide unique programming and deliver on our commitment to you. While we look forward to reigniting in-person conferences as the pandemic allows, we sincerely appreciate the outstanding response we've received to virtual events. We are grateful for your participation and continued partnerships.

I am honored to serve as President this year. I realize I am filling the shoes of some iconic bankers who have been leaders in the industry for years. Although I am relatively new to the banking scene in Minnesota, my banking career started back in the 1970s as a part-time teller in Canada — specifically, London, Ontario. Banks helped me to pay my way through college and student loans introduced me to the concept of leverage. After experimenting in the world of finance with stints at The Montreal Stock Exchange and a couple of investment banks, I made my way back to community banking and have never looked back.

As the first employee at Bridgewater Bank, I have had the unique experience of helping build a bank from its inception. It all started with a vision in 2005 to create an entrepreneurial bank where an unconventional culture demanding quick responses and an elevated level of dedication and optimism ruled the environment. We believed the best bank to serve successful clients was one built by experienced bankers with an entrepreneurial perspective and a local presence. We have continued this model and with seven branches, 190 team members and almost $3 billion in assets we are recognized as one of the top 10 banks in Minnesota.

Bridgewater is an organic growth story, but we did complete one small acquisition in 2016. Although initial capital raises were local, in 2018 Bridgewater became the first Minnesota bank in more than 25 years to complete an IPO. As the Chief Operating Officer, I currently oversee daily operations, manage the strategic planning process, and ensure all corporate initiatives come to fruition. My job is all about maintaining accountability, providing avenues for transparent communications, and creating opportunities for growth and collaboration. I can honestly say there isn't a day I am not excited about getting to the office.

To be successful in this role, I find myself constantly searching for ways to grow my knowledge and my network. As a member of the BHCA, I have been introduced to new ideas, created fruitful relationships with vendors, and learned from some of the most successful bankers in the state. The conferences, the publications (including both *Bank Owner* and *BankBeat*) provide insights into community banking across the country. Tom Bengtson, the BHCA's managing director, does an outstanding job ensuring that the topics covered are relevant and timely. As a board member and a community banker, I appreciate the efforts of the NFR staff. They bring together unique resources to create exceptional options for our industry to gather, learn, network and improve.

Until we meet in person once again, please know that we are constantly looking for ways to improve. If you have any ideas or concerns, please do not hesitate to reach out to any members of the board or Tom. ■

Spring Seminar focuses on opportunities, even in the midst of a pandemic

By Tom Bengtson
BHCA Managing Director

Perspectives on Opportunity is the theme of our Spring Seminar, set for Monday and Tuesday, May 3-4. We take great care, here at BHCA world headquarters, originating themes for our seminars. My sense is that there is opportunity all around us, all of the time. Sometimes, however, the opportunities are more difficult to see than at other times. And when we do see them, our enthusiasm for those opportunities varies according to our own circumstances. A minor opportunity today might turn into a great opportunity tomorrow, not because the opportunity changed, but because our circumstances changed. So our perspective on opportunities matters.

We have assembled a roster of excellent speakers for our Spring Seminar. All will speak to some sort of opportunity. Don Musso, president of industry consulting firm FinPro, will speak about opportunities facing board members. Steve Williams, president of Cornerstone Advisors, will share data as he explores opportunities banks have to deliver products and services to new customers in new ways. Don and Steve are among the industry's pre-eminent presenters, and have rated very highly on attendee evaluations when they have addressed our sessions in the past.

Several sponsoring Associate Members have stepped up to share their expertise on the industry opportunities they see. We will get tax and legal updates, as well as thoughts on growing your franchise, utilizing excess liquidity, and building organizational culture. A complete program with schedule, session descriptions, and registration form are available in this edition of *Bank Owner* magazine, as well as on our website at www.theBHCA.org.

While I think we would all prefer an in-person meeting, current circumstances require us to plan a virtual meeting. The efficiency of learning at your desk, in your office or at home, is a big plus. Our speakers are still able to speak directly to you through a digital platform. While they can't shake your hand, they can still shake up your thinking, and I think that is really the point of industry education.

You will note at least three ways that we have tried to make the virtual format as inviting as possible. First, the virtual sessions are shorter than the session would be at an in-person meeting. Our morning general sessions are limited to 40 minutes, and our afternoon breakout sessions are limited to 22. We understand we are competing with more distractions in the office than we would be in the ballroom at a hotel. Plus, the average attention span in front of a screen is simply less than it is in front of a live presentation.

Second, we have scheduled the sessions so that it is easy to come in and exit out of the presentations as you like. Your registration is for the entire two-day event, but we know that many people come and go, focusing on specific presentations that seem relevant to them. That's OK. In fact, we have designed it that way. Both days provide an ample lunch break, and we're leaving plenty of time between presenters during each session to accommodate questions or otherwise provide a break for checking messages or tending to other matters.

And third, we are keeping the cost low. The virtual meetings already save attendees time and money by eliminating travel. Due to the generosity of our sponsors, we are able to offer a low registration fee which makes it practical for you to invite your directors and senior manager colleagues to register as well. The sponsorship enthusiasm for the Spring Seminar has been amazing, so if you get a chance to visit with people from any of the sponsoring companies, please remember to thank them for their support.

The promise of the various vaccines gives me hope that life will return to pre-pandemic normal in the near future. My hope is that by fall, the industry will generally be back to hosting traditional, in-person meetings. We have already contracted with the Hyatt in Bloomington to host our Fall Seminar, which is scheduled for Oct. 4-5. Networking is such an important part of the BHCA value proposition; I look forward to facilitating the kind of personal interaction that historically has made our events so worthwhile. Obviously, if things don't pan out, we are prepared to go with a virtual format but my preference remains for an in-person meeting.

With March upon us, it has now been about a year since the pandemic began disrupting our way of life. A lot has happened in the past year. The economy has been on a rollercoaster, with liquidity flooding the markets, interest rates flat on the floor, employment devastated in some sectors; travel, entertainment and dining out nearly shut down, distance learning turning traditional school arrangements upside down, masks, social distancing, a boom in Zoom meetings, a migration toward technology like mobile banking and DocuSign, remote work, less commuting, more family time… it is amazing to think of all the ways this pandemic has impacted our lives.

The pandemic has forced many bankers to look at nearly every aspect of their business and consider the best way to move forward. Staffing, employee benefits, branch operations, business prospecting, customer service, vendor relationships, association memberships have all been under a microscope. In some cases, adjustments have been made that won't last any longer than the pandemic. But in other cases, changes will be lasting or even

Down to Business, *Continued on page 15*

NAVIGATING THE PERILS OF REG O

A guide to staying on the straight and narrow with the Fed's rules on insider lending

By Phil Davies

Most community bankers are familiar with Regulation O, the Federal Reserve's set of rules intended to prevent abuse of bank credit by bank presidents, directors and other "insiders." Reg O has been around for 40 years, and the terrain of compliance is well trodden. But familiarity doesn't necessarily shield bankers and bank owners from the risks of running afoul of this key regulation. Its stipulations and restrictions are complicated, and pitfalls await those who fail to pay attention to the details.

Common Reg O infractions include failing to identify the "related interests" of insiders; paying overdrafts for insiders against the rules; exceeding limits on lending to insiders; and failing to secure board approval for insider loans when required. The consequences for Reg O violations can be severe, both for financial institutions and individual insiders of banks and their bank holding companies (BHCs), who are personally liable for civil penalties.

"Anybody who's been in banking for any period of time knows that Reg O is not something to trifle with," said John Reichert, a banking and finance attorney with the Reinhart Boerner Van Deuren law firm in Milwaukee.

How can community banks and their BHCs ensure that Reg O is followed? In this heavily regulated banking world perfect compliance with any regulation is probably unattainable, but there are steps you can take to help stay on the straight and narrow with Reg O. *Bank Owner* spoke to financial regulation experts and community bankers about the challenges of complying with Reg O, and best practices for steering clear of regulatory trouble.

Regulation O revisited

Reg O is sometimes called "the Bert Lance Act." Lance, director of the Office of Management and Budget during the Jimmy Carter administration, became ensnared in allegations of mismanagement and corruption during his tenure as chairman of the board of Calhoun First National Bank of Georgia. Lance—a candidate for governor of Georgia in 1974—and his relatives ran up huge bank overdrafts at the bank. Intense scrutiny in the press and Congress forced Lance to resign from OMB in 1977. Although he later was acquitted on all charges, his conduct led to a federal crackdown on inappropriate borrowing by bank insiders.

These restrictions are laid out in the Federal Reserve Act and the Federal Reserve Board's Regulation O. They apply not only to Federal Reserve member banks but to all federally insured depository institutions under various statutory provisions. In general, Regulation O bars banks from extending credit to insiders on more favorable terms than to non-insiders such as bank employees and customers. It also restricts the amount of credit that can be extended to insiders, with more stringent limits for executive officers.

Reg O defines an insider as an executive officer, director or principal shareholder of a bank or one of its affiliates, and extends credit restrictions to family members and related interests of an insider, such as a business owned or controlled by the insider. Bank owners are also subject to Reg O, although not all provisions restraining insider lending by banks apply to BHCs. For example, lower credit limits and additional reporting requirements that must be observed by bank executive officers don't apply to executives of BHCs and other bank affiliates.

Reg O "has always been something of importance and high scrutiny" for federal bank examiners, said Karen Grandstrand, a bank regulatory expert and attorney at Fredrikson & Byron in Minneapolis, adding that since the financial crisis of 2008 enforcement has intensified, with examiners citing more violations related to Reg O.

When examiners find violations, they typically give the bank and offending insiders a chance to set things right before throwing the book at them. But citations for minor infractions may escalate to formal enforcement orders and civil monetary penalties if Reg O shortcomings go unaddressed. The Federal Reserve can assess banks and BHCs penalties of up to $25,000 per day for violations involving fiduciary breaches or "pecuniary gain."

In his practice, Reichert has seen bank directors forced to resign for abusing overdrafts in violation of Reg O, and one banker was slapped with $50,000 in fines and barred from banking for repeated violations.

What could go wrong?

Usually a Reg O breach happens just when everything seems to be under control. Breakdowns in compliance procedure and oversight can occur when a key employee leaves the bank or changes jobs, observed Crystal Hatcher, chief risk officer for Choice Bank, a $2.7 billion institution based in Fargo, N.D. "We've had audits done where we thought we were doing everything to comply, but then something slips through the cracks," she said.

A major source of Reg O trouble is failing to identify insiders — "probably the single biggest issue that we spend time with," Reichert said. Reg O requires an annual survey of all bank insiders, but not every bank (a survey is recommended for BHCs) follows through. The insider status of some individuals is obvious: the president, the board chair, the treasurer. But under Reg O any executive officer responsible for policy making at the bank or holding company is an insider — a definition that may apply to numerous executives, including vice presidents.

"What the hell is a policy decision?" asked Joe Groshens, compliance officer for Harvest Bank, a community bank based in Kimball, Minn. "Reg O is really, really vague in defining who the executive officers are."

Another Reg O danger zone: Keeping tabs on lending to insiders' related interests. Examiners home in on loans that appear to offer favorable rate and credit terms to businesses, political campaign committees and other outside interests of an insider. Grandstrand has seen a number of Reg O citations "based on an allegation that a loan given to a related interest of [an insider] was made under preferential terms." In one case a loan to a bank director's company was deemed preferential because the bank hadn't previously offered that type of loan to other customers.

Other common Reg O pitfalls include mishandling overdrafts and exceeding aggregate lending limits to insiders. Banks routinely pay overdrafts for customers, but Reg O imposes strict rules on overdrafts of executive officers and directors of banks (shades of Bert Lance) and BHCs. Banks are prohibited from covering overdrafts of these insiders (principal shareholders are exempt) unless the overdraft is inadvertent, not more than $1,000 and cleared within a few days.

Reg O insider lending limits "are sometimes challenging at best to figure out, and that takes some analysis," said Howard Hagen, head of the banking law group at Dickinson, Mackaman, Tyler & Hagen, a law firm in Des Moines, Iowa. Restrictions are tighter for executive officers than for other types of insiders. For example, the total amount of credit extended to any insider — including family members and related interests — can't exceed $500,000, or a certain share of the bank's unimpaired capital and unimpaired surplus, without prior board approval.

For executive officers lending is capped at $100,000, unless the money is used to finance a residential mortgage or schooling for the officer's children.

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Compliance best practices

A bank's best hope of avoiding Reg O peril? Having robust policies and procedures to ensure compliance — or at least reduce the likelihood of serious violations that damage the institution's reputation and risk monetary penalties.

Vigilance starts at the top, and most community banks designate a compliance officer to see that Reg O and other banking regulations are followed. Most community bankers have such a position, or bring in a law or accounting firm to manage the task. Groshen, in addition to serving as Harvest Bank's compliance officer, handles compliance for two other banks in south-central Minnesota, working on a contract basis.

Written Reg O guidelines and procedures are essential, even for small banks that rarely see an insider credit request; employees must know how to deal with such situations — or whom to ask if they're not sure. "Because for us these [insider] loans come up very infrequently, developing a strong policy is very, very important," Groshen said.

Reg O best practices recommended by regulatory compliance experts:

- Limit membership in the Insider Club. Bank boards would do well to adopt an annual resolution stating who is subject to Reg O, Reichert said. Excluding some executive officers, such as vice presidents who have no policymaking role, makes it easier to stay abreast of insider credit activity.
- Automatically flag credit requests with potential Reg O implications, including overdrafts and loan renewals. At Choice Bank, "we put a special code in the [core banking] system so that if anybody pulls up that customer's name it's identified right away, telling you it's an insider," Hatcher said.
- To quickly clear insider overdrafts, require executive officers and directors to preauthorize a funds transfer from another account, advises Amy Koshiol, head of the financial institution compliance practice at CLA, a top-10 accounting and consulting firm. "You don't have to get hold of them and take extra steps," she said. "You can just make that transfer and get the item covered so that it doesn't potentially become a violation."
- When in doubt, seek board approval for loans and other credit extensions to insiders. Trying to figure out whether an insider's borrowing has crossed the Reg O threshold for board review may not be worth the risk of making a mistake. "Irrespective of the amount, any loans to directors or officers probably should go to the board," Hagen said.
- Perform compliance audits to stress-test Reg O policies and procedures, along with other compliance practices. Choice Bank conducts internal audits annually, or quarterly if the bank has experienced significant staff turnover. Hiring a CPA firm to do the job is an option for small, understaffed institutions; audits make up the bulk of CLA's banking compliance practice.
- Perhaps the most important element of staying true to Reg O — without which other compliance efforts are irrelevant — is education; everyone at the bank and BHC must know the rules and understand the potentially serious fallout of slip-ups. Insiders should be periodically reminded about Reg O requirements, and their personal liability for violations, said Grandstrand, who teaches online classes about Reg O for bank executives and board members at her clients' request.

Banks are prohibited from covering overdrafts of insiders unless the overdraft is inadvertent, not more than $1,000 and cleared within a few days.

Choice Bank, like many community banks, offers regular training on Reg O and other financial regulations, both for insiders and non-insider employees. "We want to make sure that we train all the bank's personnel who might be involved in any kind of Regulation O transaction," Hatcher said. "We don't expect them to know Regulation O inside and out, but if they identify a possible Regulation O transaction we want them to immediately get the right people involved."

In such sessions, and in the course of daily bank business, board members and bank employees at all levels should be encouraged to "ask questions about Reg O if they don't understand," Grandstrand said. "These are complex rules and no question is stupid." ■

Freelance economics and business writer Phil Davies is a former editor with the Federal Reserve Bank of Minneapolis.

See the Opportunity in Current Conditions

People in business see opportunities all the time – some of them significant, and others less so. It all depends on your perspective. Presenters at the BHCA Spring Seminar will help you consider “Perspectives on Opportunity.” We have two days of sessions scheduled, designed to help you see new opportunities, and to see familiar opportunities in new ways. The industry’s leading experts will be offering thoughts on current conditions, new tax policy, cyber security, sales training, asset/liability management and culture.

The 2021 version of the May 3-4 Spring Seminar is all virtual, providing desk-top access to compelling industry education. We open each morning with an in-depth assessment of industry conditions, and then come back after lunch with three to-the-point sessions on very specific industry opportunities. Steve Williams, the president of Cornerstone Advisors, will share research about organizations that are blazing a successful path in financial services, during his Monday morning presentation. During the Tuesday morning session, Don Musso, president of FinPro Advisors, will cover a broad array of topics dominating discussions among bank directors at community banks across the country. Williams and Musso have addressed BHCA groups before and attendees have honored their presentations with the highest ratings possible.

The new administration in Washington D.C. is expected to bring changes to the nation’s tax policy and experts from Eide Bailly will help us understand what’s likely coming. Technology and security issues seem to go together, and Caitlin Houlton Kuntz of Fredrikson & Byron will alert us to risks we may not have anticipated. Scott Hildenbrand of Piper Sandler and Kevin Schalk of Baker Tilly, in separate sessions, will offer their takes on current market conditions and how banks can make the most of them.

While the pandemic has changed many business practices, it has disrupted the sales process substantially. Jack Kasel of the Anthony Cole Training Group will look at how to make the most of your sales team, even when you have to manage or coach them remotely. Employee performance is often a result of the culture of the institution. Good culture doesn’t just form on its own; leadership needs to be deliberate about defining what they want and implement policies and programs to make it happen. Julie Peterson Klein, who has been the Chief Culture Officer at Bell Bank for more than two decades, will offer insight into making the most of your culture.

Due to our tremendous sponsor support, we are able to make this fantastic two-day educational event available to members at just $149. Attend the entire seminar or just a single session, for one simple low price. Or, if you have three or more people at your bank, or on your board, who would like to attend, register using our member group rate of $399. That’s one package rate for three to 10 registrants.

Registrants will have access to seminar information, including an attendee list, and presentation documents through our digital platform. Register today to reserve your spot for this dynamic seminar. Perspectives on Opportunity – your best two days in banking!

2021 Spring Seminar

Agenda

Speakers:

Steve Williams

Mel Schwarz

Jay Heflin

Caitlin B. Houlton Kuntz

Monday, May 3

11:15 to noon

Competing in a "Bank Anywhere, Work Anywhere" world

By Steve Williams, President and Partner, Cornerstone Advisors

Cornerstone's Steve Williams will share the latest data points and some compelling best practice stories of how banking is forever changing after the events of 2020. As banks navigate the challenges of the yield curve, earnings and capital preservation, they too must embrace business model and delivery changes that will have a material impact on future shareholder value. The collision of digital, analytics, automation and marketing will refine how banks acquire, engage and retain their customers – even for the most commercially focused bank. Join us for a tour of the trailblazers in the industry who are already forging ahead with these new realities.

1:30 to 2:00 p.m.

President Biden's Tax Plan and the Banking Industry: Opportunities and Risks

By Mel Schwarz, Jay Heflin and Paul Sirek, Eide Baily

Now that Democrats hold the presidency and the Congress, legislative tax changes are on the horizon. How could this affect your bank and its stakeholders? What new opportunities might it uncover? Members of the Washington, D.C. office of Eide Bailly will discuss the likelihood and potential timing of changes, as well as the opportunities and risks they present.

2:00 to 2:30 p.m.

Confidentially/Data Security in Vendor Contracts

By Caitlin Houlton Kuntz, Fredrikson & Byron

A bank's data is precious, not only because of its value to both the bank and the bank's customers, but because it is heavily regulated by federal and state law. Not all vendor agreements are drafted with financial institutions in mind; many vendors simply are not aware of the particular regulatory obligations that directly affect banks. This session will cover key confidentiality and data security provisions to watch for in vendor contracts, critical rights and protections for bankers to negotiate, and plotting a roadmap for handling data breaches (all the while praying you will never need to use it).

2:30 to 3:00 p.m.

How to make the most of opportunities in the capital markets

By Scott Hildenbrand, Piper Sandler

Join Scott for a discussion of balance sheet strategies and tactics in the current environment. Themes include understanding your A/L position and interest rate hedges. Learn how your institution can use derivatives to drive fee income, enhance NIM, and protect capital and earnings. Scott will also cover relevant accounting and market updates to contextualize the ideas and help management teams find value for their institutions.

Tuesday, May 4

11:15 to noon

2021 Issue in the Boardroom

By Don Musso, President, FinPro, Inc.

This presentation will focus on current issues bank boards and senior officers are facing as a result of the pandemic, weak economy, political turmoil and regulatory uncertainty. Using real examples, the presentation will provide substantive solutions and ideas for banks to deploy. Covering a wide range of topics, this presentation will have a "must know" for everyone.

1:30 to 2:00 p.m.

Excess Liquidity - Challenges and Opportunies

By Kevin Schalk, partner, Baker Tilly

The current economic circumstances have resulted in substantially higher liquidity levels at community banks. This session will address some of the key asset/liability management challenges arising from this situation and some opportunities that may be available to effectively deploy excess deposits. Further, this session will comment on the use of data analytics to more effectively evaluate higher levels of deposits.

2:00 to 2:30 p.m.

Coaching your team in a remote world

By Jack Kasel; Anthony Cole Training Group

With technology interfaces and our current remote work environment, how do banking sales leaders manage and motivate their sales team? They must have strong coaching skills and they must be effective, virtually. This session will provide specific strategies to help sales leaders coach their salespeople on thow to grow relationships and revenue, even in this virtual world.

2:30 to 3:00 p.m.

Connect with customers by defining a culture

By Julie Peterson Klein, Chief Culture Officer, Bell Bank

Successful organizations are deliberate about forming a culture that puts their customers, employees and shareholders in position to succeed. Julie will explain how Bell Bank has built its "pay it forward" culture and what it has meant to the bank. Further, she will share guidelines and ideas for bankers seeking to define and make the most of the culture at their organization.

2021 Spring Seminar: Perspectives on Opportunity

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Address ____

City ________________ State ________________ ZIP __________

Phone ____________________ Email ____________________

Guest Name(s) ____________________________________

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By Mike Scott

Fed Control Rule Improves Transparency

In 2020, the Federal Reserve System revised its regulations related to determinations of whether a company has the ability to exercise a controlling influence over another company for purposes of the Bank Holding Company Act (BHC Act) or the Home Owners Loan Act (HOLA). This final rule was originally to become effective April 1, 2020, but the effective date was delayed until Sept. 30, 2020, to provide companies affected by the new control rule with additional time to analyze the impact of the rule on existing investments and relationships, and to consult with FRS staff as necessary.

By codifying presumptions of control in Regulation Y and Regulation LL, this rule provides bank holding companies, savings and loan holding companies, depository institutions, investors, and the public a better understanding of the facts and circumstances that the FRS considers most relevant when assessing control and thereby increases transparency. The complete final rule is available at https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200130a.htm.

Under the BHC Act, a three-pronged test is used to determine whether a company has control over another company. Control exists if the first company (1) directly or indirectly or acting through one or more other persons owns, controls, or has the power to vote 25 percent or more of any class of voting securities of the other company; (2) controls in any manner the election of a majority of the directors or trustees of the other company; or (3) directly or indirectly exercises a controlling influence over the management or policies of the other company. HOLA has a substantially similar control definition.

While the first two prongs are measurable standards that are easily understood, the third prong has historically required a situation-specific determination by FRS staff.

Fed Control Rule, *Continued on page 15*

	Less than 5% voting	5% to 9.99% voting	10% to 14.99% voting	15% to 24.99% voting
(1) Directors Elected/Selected by Investor ("Director Representative")	Less than half	Less than a quarter	Less than a quarter	Less than a quarter
(2) Director Representative Service as Board Chair	Not Applicable	Not Applicable	Not Applicable	No director representative is chair of the board
(3) Director Representative Service on Board Committees	Not Applicable	Not Applicable	A quarter or less of a committee with power to bind the company	A quarter or less of a committee with power to bind the company
(4) Business Relationsips between Investor and Company	Not Applicable	Less than 10% of revenues or expenses of the company	Less than 5% of revenues or expenses of the company	Less than 2% of revenues or expenses of the company
(5) Business Terms	Not Applicable	Not Applicable	Market Terms	Market Terms
(6) Officer/Employee Interlocks between Investor and Company	Not Applicable	No more than one interlock, never the CEO	No more than one interlock, never the CEO	No interlocks
(7) Investor Contractual Powers	No management agreements	No rights that significantly restrict discretion	No rights that significantly restrict discretion	No srights that significantly restrict discretion
(8) Proxy Contests (directors)	Not Applicable	Not Applicable	No soliciting proxies to replace more than permitted number of directors	No soliciting proxies to replace more than permitted number of directors
(9) Total Company Equity Owned by Investor	BHCs - Less than 1/3 SLHCs - 25% or less	BHCS - Less than 1/3 SLHCs - 25% or less	BHCS - Less than 1/3 SLHCs - 25% or less	BHCS - Less than 1/3 SLHCs - 25% or less

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.

▷ SBWY Financial Corporation, Evanston, Wyo., authorized to become a bank holding company by acquiring State Bank, Green River, Wyo.

▷ First Busey Corporation, Champaign, Ill., filed to merge with Cummins-American Corp., and thereby acquire Glenview State Bank, both of Glenview, Ill.

▷ Andrew J. Gesell, St. Paul, Minn., filed to retain and acquire additional shares of Cherokee Bancshares, Inc., and thereby retain and acquire additional shares of Bank Cherokee, both of St. Paul, Minn.

▷ Banner County Ban Corporation Employee Stock Ownership Plan and Trust filed to acquire up to an additional 2.95 percent for a total of 44.60 percent of Banner County Ban Corporation, and thereby acquire additional shares of Banner Capital Bank, all of Harrisburg, Neb.

▷ Marathon MHC, Wausau, Wisconsin; and Marathon Bancorp, Inc. (Bancorp) authorized (1) to become a mutual bank holding company and a mid-tier stock bank holding company, respectively, by acquiring Marathon Bank (Bank), Wausau, in connection with the conversion of Bank from mutual to stock form and a minority stock issuance by Bancorp; and (2) for Bancorp to engage in extending credit and servicing loans.

▷ Lindell Bank & Trust Company, St. Louis, filed to merge with Rockwood Bank, Eureka, Mo., and to retain the acquired facilities as branches.

▷ WNB Holdings, LLC, North Platte, Neb., authorized to become a bank holding company by acquiring shares of Western Bancshares, Inc., Curtis, parent of Western NebraskaBank.

▷ Lake Shore III Corporation, Glenwood City, Wis., filed to acquire Five-Lakes Acquisition Co., and its wholly owned subsidiary, Five Lakes Financial, Inc., both of Milwaukee, and thereby engage in the nonbanking activity of extending credit, servicing loans and leasing personal property.

▷ Notice by Timothy Schams, La Crosse, Wis., filed to acquire 10 percent or more of River Holding Company, Stoddard, Wis., and thereby control River Bank, Stoddard, and Wisconsin River Bank, Sauk City, Wis.

▷ PSB Holdings, Inc., Wausau, Wis., filed to merge with Waukesha Bankshares, Inc., and thereby acquire Sunset Bank & Savings, both of Waukesha, Wis.

▷ Teresa L. Kuhn, Dilworth, Minn., filed to acquire shares of Bankshares of Hawley, Inc. (Bankshares), by becoming a trustee of Valley Premier Bank Employee Stock Ownership Plan and Trust, which owns Bankshares and thereby indirectly owns Valley Premier Bank, all of Hawley, Minn.

▷ OakStar Bancshares, Inc., Springfield, Mo., authorized to acquire through merger First Bancshares, Inc., Kansas City, Kan., and thereby acquire Community First Bank.

▷ Darnell Phillips, Las Vegas, Nev., and others filed to become a bank holding company. The R. Dean Phillips Bank Trust intends to acquire control of: (1) Great River Bancshares, Inc., Quincy, Ill., and its subsidiary, The Hill-Dodge Banking Company, Warsaw, Ill.; (2) T&C Bancorp, Inc., Quincy, and its subsidiaries, Town & Country Bank Midwest, Quincy, and North Missouri Bancorp, Inc., Edina, Mo., and its subsidiary, The Citizens Bank of Edina; (3) Ambage, Inc., West Point, Neb., and its subsidiary, F&M Bank, Falls City, Neb.; (4) West Point Bancorp, Inc., West Point, Neb., and its subsidiaries, F&M Bank, West Point, and Town & Country Bank, Las Vegas; (5) Topeka Bancorp, Inc., Topeka, Kan., and its subsidiary, Kaw Valley Bank, Topeka; and (6) HNB National Bank, Hannibal, Mo. Also a companion application was filed by HNB Bancorp, Inc., Hannibal, to become a bank holding company by acquiring HNB National Bank, Hannibal.

▷ Independence Bancshares, Inc., Independence, Iowa, filed to acquire First State Bank, Sumner, Iowa.

▷ Notice filed by Clarence J. Beard, individually, and Betty Beard, individually, both of Lewellen, Neb., to acquire control of Lewellen National Corp., parent of Bank of Lewellen, both of Lewellen, thus establishing the Lewellen Family Group.

▷ First Mid Bancshares, Inc., Mattoon, Ill., authorized to acquire LINCO Bancshares, Inc., Columbia, Mo., and thereby acquire Providence Bank.

▷ CBI Bank & Trust, Muscatine, Iowa, authorized to merge with The Farmers and Mechanics-Bank, Galesburg, Ill., and thereby establish branches.

▷ Notice filed by The Kelly J. Green and Jessica E. Green Trust and others to acquire shares and thereby control of ThePrism Group, Inc., parent of The HamiltonBank, both of Hamilton, Mo.

▷ AgCom Holdings, Inc., Holstein, Iowa, authorized to become a bank holding company by acquiring Maxwell State Bank, Maxwell, Iowa.

▷ Change in control notice filed by Brian Kenneth Solsrud, North Oaks, Minn., to acquire additional voting shares, and thereby control, of Belt Valley Bank, Belt, Mont.

▷ The First National Bancshares, Inc. Profit Sharing and ESOP Trust, filed to acquire additional, for a total of 34.72 percent, shares of First National Bancshares, Inc., and thereby indirectly acquire additional share of FNB Bank, all Goodland, Kan.

New to BHCA

The Bank Holding Company Association welcomes:

Anthony Cole Training Group
Jeni Wehrmeyer,
Cheif Operating/Marketing Off.
Jack Kasel,
Sales Developement Expert
Cincinatti, Ohio

Anthony Cole Training has developed a market-tested sales training approach that drives results because we work closely with your team to help them develop the language, skills and behaviors to more effectively sell, coach and hire. When working with us, you partner with professionals who hold themselves accountable for growing your bank's business. We tailor our sales training programs to fit your specific priorities and we customize it to fit each of your target markets.

KLC Financial, Inc.
Shannon Smith,
Chief Credit Officer
Brian Bourne,
Business Development Associate
Minnetonka, Minn.

KLC Financial, Inc., is an independent equipment finance company. We work with community banks to both fund our deals and help drive business to their bank. We also help bankers fund deals for their customers that they can't do on their own.

Ncontracts
Marnie Keller, SVP Partnership & Industry Outreach
Brentwood, Tenn.

Ncontracts is a leading provider of vendor, risk management and compliance software. Our rapidly expanding customer base includes more than 1,500 financial institutions, mortgage companies and fintech companies located in all 50 states and U.S. territories. Our powerful combination of software and services enables clients to achieve their risk management and compliance goals with an integrated, user-friendly cloud-based solution.

Equipment finance partner can be key to winning, maintaining lending relationships

By Bank Owner Staff Writer

While banks are adept at financing a variety of needs, sometimes it makes sense for a bank to partner with other credit providers. KLC Financial, Inc., is an equipment finance company (EFC) based in Minnetonka, Minn., that has worked with many banks to help business owners get the credit they need. KLC Financial joined the Bank Holding Company Association earlier this year.

About a dozen years ago, when Brett Lawrence was a loan officer at Venture Bank in the Twin Cities, an entrepreneur sat down in front of his desk and explained he was seeking a million-dollar loan to fund a new concept in indoor recreational entertainment. Lawrence liked the idea but didn't think it was a fit for the bank to handle on its own. The two continued to visit and eventually struck a deal where the bank financed a third, the borrower's landlord financed a third, and KLC Financial, Inc., financed a third. A significant portion of the venture involved the purchase of new equipment, which made the borrower a good candidate for an equipment financing referral.

Lawrence, who today works at the $400 million Platinum Bank in Oakdale, Minn., said the deal worked well and today that same entrepreneur now has some 10 locations. Platinum Bank is the bank subsidiary of Platinum Bancorp., Inc., which is a BHCA member.

Lawrence said he initially met the owners and staff at KLC Financial at networking events. While there may be a half dozen equipment financing organizations in the market, KLC Financial stands out, Lawrence said, because it is well established with other banks and many accounting and law firms.

An important part of an equipment finance company's business is partnering with community banks to help lease/finance capital equipment the bank cannot finance internally, explained Brian Bourne, business development associate at KLC Financial.

"This partnership allows the banks to provide an option to their clients seeking equipment financing while not directing them to another source of funding," Bourne said. "The bank and EFC work in tandem to build long-lasting, mutually beneficial relationships. Over time, the EFC can essentially become an extension of the bank. They work two-fold with the banks to assure the relationship benefits everyone involved."

Lawrence explained the arrangement from his perspective as a bank lender: "An optimal customer arrangement with my equipment finance partner is one where I am working with a customer on other financing needs and they are able to deliver on their equipment needs. The bank is able to retain the overall relationship while my EFC partner has helped with an important piece of financing."

Bourne noted that an equipment financing company can help bankers maintain relationships with their borrowers. "If a situation arises that you cannot offer financing on a client's equipment, you put yourself at risk of losing the entire relationship itself," Bourne said. "If that client looks to other banks for their equipment financing, it is only a matter of time before that other bank starts calling on them to transfer their accounts and deposit business over to them. If you can instead secure the financing through your EFC partner, your customer is happy and the competition does not have a natural opportunity to poach them from you."

KLC Financial, founded in 1987, helps businesses lease and finance their equipment with purchases from $10,000 to $10,000,000. Bourne explained that KLC has its own capital and is not regulated as traditional banks are, so it has "the ability to be intelligently creative with our deals." In 2020, KLC funded more than $90

Equipment finance, *Continued on next page*

Equipment finance, *Continued from previous page*

million in equipment for their customers and are looking to grow beyond that in 2021.

"KLC uses creative financing structures that fully leverage the value of the equipment into a very manageable payment package," Bourne explained. "The creativity typically allows the customer to use their cash for other working capital needs and then has a set payment schedule in place on their hard assets. This allows entrepreneurs to plan on their monthly budget as well as utilize their working capital to grow their business."

Manufacturers, IT, Franchises, and virtually any organization that is dependent on substantial equipment investments make excellent candidates for companies such as KLC Financial. ■

Down to Business, *Continued from page 5*

permanent. For example, some banks have moved to loan or account processing that is entirely digital. Maybe that aspect of the long-anticipated paperless office is finally becoming a reality. Or maybe video conferencing will replace many meetings that routinely required travel in the past. The time and cost savings are hard to argue with. And maybe some of the HR trends to emerge in the past several months will become part of the permanent employee-relations landscape, things like remote work options, less focus on tracking hours and sick days, and more emphasis on the daily or weekly "check-ins," even for folks who return to the office.

Human nature is such that a lot of times, we don't make changes unless we are forced too, even if we know the change will be good for us. Maybe the pandemic has forced us to make some changes. My hope for all BHCA members is that the changes are productive, meaningful and painless. ■

Fed Control Rule, *Continued from page 12*

To provide greater clarity regarding the third prong, the new control rule established nine objective factors and four ownership thresholds that help indicate whether an investor has the ability to exercise a controlling influence over a company. The table on page 12 contains these nine factors (column 1) and four ownership percentage ranges (row 1). An investor is presumed to exercise a controlling influence over a company if it exceeds one or more of the thresholds specified in the column that corresponds to the investor's ownership interest in the company.

A common past practice to address an investor's potential control position over another company based upon the three prongs mentioned above has been for the FRS to obtain passivity commitments from the investor. Given the objective measurements under the new control rule, the FRS does not intend to routinely obtain these standard passivity commitments going forward. Furthermore, investor companies that have already provided the standard passivity commitments may contact their local Reserve Bank to seek termination of these commitments. The FRS does not expect to revisit investor structures that have previously been reviewed unless the structures have materially changed since the original review.

This final rule applies to issues of potential control under the BHC Act and HOLA. It does not extend to questions of control under the Change in Bank Control Act (CIBCA). Thus, an investor may have a notice filing requirement under CIBCA even if it is not in a control position under the BHC Act or HOLA.

We encourage potential investor companies to review the three-pronged test before making investments that could trigger a presumption of control. If such investments would involve holding companies located in the Ninth Federal Reserve District, and there are questions regarding applicability of this new control rule, please contact Reserve Bank Mergers & Acquisitions staff by telephone or at MA@mpls.frb.org. ■

Mike Scott is Senior M&A Analyst with the Federal Reserve Bank of Minneapolis.

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