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Bank Owner

Bank Holding Company Association Magazine

Fall Seminar information pages 8-12

Proactive Succession Planning

Passing the torch without getting burned

CECL — Are Your Ready?

A look at regional conditions

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Autumn 2021

CONTENTS

Columns:

President's Observations:
Fall Seminar provides information that every organization can use 4
By Mary Jayne Crocker

Down to Business:
Join me in following the discussion around CBDC 5
By Tom Bengtson

Feature:

Proactive succession planning helps banks maintain independence........... 6
By Phil Davies

CECL — it's time (again) 13
By Michael Flaxbeard

2021 Fall Seminar:

Fall Seminar puts M&A back in the spotlight! 8

Seminar agenda... 9

Seminar registration form.. 12

Departments:

Fed Notes:
Charts provide insight into region's banking conditions 16
By Amber Guzzo

Holding Company Transaction Report.. 18

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.

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Fall Seminar provides information that every organization can use

By Mary Jayne Crocker
Bridgewater Bancshares, Inc.
St. Louis Park, Minn.

The Bank Holding Company Association Fall Seminar has become one of the best M&A education events in the industry. I invite you to join us for our fourth annual M&A-themed Fall Seminar on Oct. 4-5. Whether you have specific plans to buy or sell anything in the near-term future, this seminar provides valuable information that will guide you through the landscape and help you create your own plan for the future.

We are calling the Fall Seminar "Opportunities for Growth." Those opportunities could be organic, or they could be through acquisition. At Bridgewater Bancshares, Inc., we completed a modest acquisition a few years ago, adding two branches strategically located to round out our Twin Cities footprint. We have grown to more than $3 billion in assets, mostly by offering responsive support and simple solutions for our clients. As entrepreneurs ourselves, we at Bridgewater understand the needs of our client base and the team knows to go the extra mile to distinguish ourselves from the competition.

We think we have a pretty good story to tell, which is attracting clients, employees and investors. I expect that if you attend the Fall Seminar, you will get some ideas about how to effectively tell your story.

We recently hired Justin Horstman to fill a new position at the bank, Director of Investor Relations. Joining us in June, Justin has 15 years of experience, most recently as vice president/investor relations manager for TCF Bank (aka Huntington Bank). Justin has provided some great insights into how to tell the Bridgewater story — a story that we hope resonates with both our clients and the investment community.

"Bridgewater is well positioned to benefit from market disruption. We have already taken advantage of TCF's merger of equals with Chemical Bank of Michigan, and continue to attract talent with Huntington's recent acquisition of TCF. This kind of activity causes displacement of people. Bridgewater is in position to benefit from that disturbance," Justin explains. "We have picked up both expertise and producers, many of whom have been able to bring clients with them. Our most recent hire is a chief risk officer who came from TCF. We have a track record, a culture and an experienced management team that people are drawn to."

Justin notes that with the pandemic and other disrupting factors, people are looking for stability. "Clients go to stable names as names and brands change," he said, noting that Bridgewater has experienced steady growth since its inception.

What's on the horizon for Bridgewater? Justin said the bank "still has room to run in the Twin Cities, but if we max out that opportunity, we will look at opportunities that make sense. We have primarily been an organic growth story."

Every organization is unique. We will get a chance to hear from a few bankers who will share their stories at the Fall Seminar. I always find the real-life example stories to be inspiring, and I hope you do too.

Whatever the circumstances of your situation, I look forward to seeing you at the Fall Seminar. I guarantee you will come away with information you can apply to your unique bank. In addition to having many of the region's leading investment bankers, accountants, attorneys and M&A consultants in the room, the seminar is also a great opportunity to talk to bankers and bank owners who have been through acquisitions, sold assets or purchased banks. Come to the seminar with a few specific questions. You will get the chance to ask the experts. ■

Join me in following the discussion around CBDC

By Tom Bengtson
BHCA Managing Director

Where will the digital age take banking? I have spent a lot of time thinking about that question but solid answers remain elusive. The payments system has always been somewhat mysterious; newer concepts such as cryptocurrency, distributed ledger and stablecoins only make the questions more complicated.

For me, a new term in the banking lexicon is CBDC, which stands for Central Bank Digital Currency. There is a lot of discussion around the possibility of the Federal Reserve creating a digital currency. Central banks around the globe, apparently, are wrestling with this idea. It seems a ways off in the United States, and it would take an act of Congress to authorize the Fed to create a CBDC that could be circulated in this country.

The CBDC concept is important because it could be used by the general public, and people could hold CBDC in accounts at the Federal Reserve. Some advocates say CBDC is a good way to serve the needs of the unbanked as it could be used by people who don't have a traditional bank account. But as the American Bankers Association pointed out in testimony delivered to a Senate subcommittee on June 9, a general purpose CBDC could effectively siphon deposits out of the banking system and move customers to the Federal Reserve. It points out that while no one has ever lost a penny in an FDIC-insured bank account, it is pretty tough to compete with a U.S. government depository that prints its own money.

Former FDIC Chair Sheila Bair wrote a column recently for Yahoo Finance in which she suggested that CBDC could be a vehicle for the government to get emergency aid to citizens in the event of a crisis. I really thought that during the coronavirus health crisis that the banking industry did a pretty good job getting government funds to businesses through the Paycheck Protection Program. Skeptics note some fraud in the process, and CBDC, based on distributed ledger technology, would be nearly impossible to cheat. My analogy isn't perfect because Bair's idea is for CBDC to be channeled to individuals, not businesses. But my point is, CBDC represents a next-generation concept for replacing an essential function currently performed by the nation's banks.

Federal Reserve Board Governor Christopher Waller delivered an interesting speech on this topic on August 5. Reflecting somewhat the opinion of the ABA, Waller is not convinced of the need for a CBDC. "While CBDCs continue to generate enormous interest in the United States and other countries, I remain skeptical that a Federal Reserve CBDC would solve any major problem confronting the U.S. payment system. There are also potential costs and risks associated with CBDC," he said in the conclusion of his speech.

Federal Reserve Chair Jerome Powell announced recently that the Fed will publish a discussion paper on the benefits and costs of creating a CBDC. A lot of people are eager to read this paper, including me. The future of our nation's payments system still remains a bit mysterious to me; any light the experts can shine on this is greatly appreciated!

Plan to make the Fall Seminar part of your October

I am so excited about the Fall Seminar, scheduled for Oct. 4-5, 2021 at the Hyatt Regency in Bloomington, Minn., near the MSP airport and the Mall of America. We have prepared an intense agenda with more speakers, more information, and more education than ever before. We are expecting strong attendance given we were not able to meet in person last year.

In addition to the many experts who will address M&A topics, I want to call your attention to our luncheon speaker on Tuesday, Oct. 5 — Sara Frasca. She is an innovation expert who will invite you to take a big-picture view of your organization and she will share ideas designed to energize your staff. She has studied hundreds of organizations, attempting to identify the characteristics of the innovative ones. These are things that can be learned and applied to almost any organization that wants to make the most of its innovative inklings. Although she hails from Florida, Sara has Twin Cities roots having worked for 13 years at General Mills — a company that knows a thing or two about innovation. We have a special registration set up specifically for the Tuesday lunch, so please consider inviting guests from throughout your organization who you believe may benefit from this inspirational presentation.

A word about the pandemic. We are working with the Hyatt Regency to present the safest possible conference. We will be following protocols from the Centers for Disease Control and other authorities regarding social distancing, masking, meal preparation and other facets of our seminar. In early summer, it really looked like we were on the cusp of putting the pandemic behind us. Currently, we are seeing an increase in cases but there are no restrictions as of this writing which prevent us from planning a robust in-person seminar. We will adapt if necessary and do what makes sense, keeping your health and safety in mind as a top priority.

Be aware that we do have a virtual option for seminar registration, which provides access to recordings of every seminar session. But we understand that one of the real values of our seminars is the networking, and that is why we are so pleased that current conditions allow us to move forward with plans for an in-person event.

Down to Business, *Continued on page 17*

PROACTIVE SUCCESSION PLANNING HELPS BANKS MAINTAIN INDEPENDENCE

The last and perhaps greatest challenge for bank owners is passing the torch to the next generation

By Phil Davies

Noah Wilcox admits he's "passionate" about a topic not many community bankers are passionate about: business succession planning. The 48-year-old CEO of Grand Rapids State Bank in Grand Rapids, Minn., has strived to pass on the legacy of the bank for more than 20 years. Shortly after joining the family-owned enterprise as a senior manager, Noah and his father Steve developed a long-term succession strategy that culminated in the younger Wilcox becoming the fourth generation of the family to lead the bank.

Now he's considering the next stage of succession, the transfer of ownership to the fifth generation, although the eldest of his five daughters is still in college. "I think we have some luxury of time, short of me being hit by a bus tomorrow, to weigh that next option," he said.

Halfway across the state in the small community of Janesville, Mike Finley has chosen his successor as president of Janesville State Bank: his son Sean, currently the bank's assistant vice president and CFO. But Mike, 65, has only just begun to draft a formal succession plan, possibly modeled on the blueprint his father drew up for him in the early 1990s.

Both men, in their own fashion and at their own pace, are grappling with what Tom Hubler, a Minneapolis family business consultant, calls "the last challenge of entrepreneurship"— passing the torch to the next generation.

Understandably, bank owners tend to put off succession planning. It involves discussing discomfiting topics such as wealth and death, for one thing. "People just don't like to talk about these things, and they like to pretend that it's not there," Hubler observed. It entails relinquishing control of the bank and the income that comes with ownership. And the planning process requires huddling with lawyers and accountants to work through irksome matters such as regulatory compliance and estate taxes.

Frequently community banks fail to rise to the challenge, coming to grips with passing on ownership only when a crisis — such as the death of the primary shareholder — forces the issue. Attorneys and business succession consultants make a living off banks teetering between generations whose owners failed to plan for the inevitable.

Succession well planned doesn't necessarily mean keeping the bank in the family. It does mean finding a way forward after the passing of the senior generation that ensures the continued prosperity of the bank and its survival as an independent, locally owned institution. The alternative is the end of the line — liquidating assets or selling the bank to another financial institution that will operate it under its own name.

The best time to begin succession planning is a decade or more before the head of the bank plans to retire, business succession experts say. Starting early can make the process less stressful and reaching consensus with family members and other stakeholders easier, while giving the younger generation time to learn the ropes. "I jokingly tell clients, you should start thinking about this when you incorporate your business," said Sally Stolen Grossman, an attorney with Lathrop GPM in Minneapolis who counsels bank holding companies and other businesses. Lathrop GPM is a longtime BHCA Associate Member.

Both she and Hubler advise bank owners to focus on substantive business and family issues before diving into the legal, tax and other technical aspects of succession. "The succession plan needs to start from the inside in terms of what motivates the owner-entrepreneur and what they're trying to accomplish," Hubler said.

For a bank owner building a bridge to the future, the most important decision is picking a successor. Who will become the majority shareholder and head of the BHC, and likely also serve as CEO of the bank? The fondest wish of most heads of family-held banks is to hand the reins to a family member — a son or daughter, or perhaps a younger sibling.

That's the way things turned out at Grand Rapids State Bank. In his son Noah, former CEO and Chairman Steve Wilcox found a willing and able successor who had cut his teeth at TCF Bank and other financial institutions before returning to the family business. After his uncle, a major shareholder, retired in 2000, Noah pressed for a formal succession plan that would keep the bank independent and under family control. During the next 20 years Noah acquired Wilcox Bancshares stock formerly held by his father, uncle and other family members. He assumed leadership of the bank in 2007 and two years ago became the majority shareholder.

Family succession also seems set at Janesville State Bank, in the person of Sean Finley. He worked for 10 years in the

Noah (left) and Steve Wilcox, Grand Rapid, Minn.

Joe (left), Sean (center), and Mike Finley, Janesville, Minn.

Mankato, Minn., office of BHCA Associate Member Eide Bailly, before joining the bank's executive team in 2017. "He's my right-hand man," Mike Finley said. "He had more experience coming back to the bank than I had coming back to the bank."

The plan is for Sean to become president of the bank and its biggest shareholder after his father retires. Nothing has been settled, but Mike is considering a stock transfer similar to the arrangement his father Joe (still keeping an eye on things at 90) made to make sure that Mike gained control of the holding company.

There's not always someone in the family to take up the mantle of bank ownership. Children may be too young to assume control, or have moved away and have no interest in coming home to run the family bank. But alternative ownership scenarios can form the basis of a succession plan. One that Stolen Grossman says her clients often fail to consider is family members retaining ownership — thereby staying in charge of the bank's destiny — while bringing in an unrelated, experienced CEO to head up operations. "The two things — owning the bank and managing it — don't have to be the same," she said.

Other options that may preserve the bank's name and charter include selling the holding company to a group of top managers or other bank insiders; transferring ownership to bank employees by setting up an Employee Stock Ownership Plan; and selling to outside investors who pledge to keep the bank locally owned and independent.

Two other crucial matters to consider in succession planning are providing for support of the senior generation when it retires, and in family-owned banks, ensuring that children not destined to own the bank are treated fairly.

Most bank owners — those who don't plan to die with their wing tips on — plan to step down from bank management at some point and let their successors take charge. Mike Finley says that within the next five years he may step down as bank president while staying active in the holding company, although "there's really no timetable for that, no magical date."

Facing the possibility of living another 20 or 25 years, how can an owner provide for sufficient liquidity in retirement? Often the solution lies in selling stock to the successor owner, either directly or through the bank holding company. Redeeming the majority shareholder's stock at retirement is a common practice for small BHCs; buying back shares generates cash for the former owner while increasing the percentage interests of other family shareholders.

Retirement is a distant prospect for Wilcox, but he's already contemplating how much bank stock he could afford to give to his children while retaining enough shares to fund a comfortable retirement — a tricky calculation because of the massive appreciation of bank stock over decades. "That multiple of growth in value is always a problem, and it gets harder with every generation," he said.

How to do right by children not in the line of succession can be another quandary for owners. Stolen Grossman sees many clients wanting to treat all their children the same, by giving them equal shares of voting stock when they retire or die, for example. That's a big mistake, creating a house divided and setting up the successor for failure, she says. "What I try to do is change their focus from wanting to treat their children the same, to wanting to treat them fairly."

Adult children who aren't involved in bank operations could benefit from gifts of non-voting stock or cash during their parents' lifetime. Or they could receive their due later from the family estate, in the form of non-bank assets such as real estate, trust funds or life insurance payouts.

Forming a "family board" or advisory council that allows parents, children and other family members to gather on a regular basis to air their differences can help resolve disputes and smooth the transfer of ownership.

Once a rough framework for succession is in place, it's time to call in the professionals — estate lawyers and tax accountants who can advise on and execute the technical aspects of transferring bank ownership along with other assets to the next generation. Several BHCA Associate Members offer these services.

Proactive Succession Planning, *Continued on page 15*

21 BHCA FALL SEMINAR

OCT 4-5

OPPORTUNITIES FOR GROWTH

REGISTER TODAY | THEBHCA.ORG

Fall Seminar puts M&A back in the spotlight!

Event provides forum for bankers, industry experts

Opportunity in the community banking industry has rarely been so compelling, as innovations in technology, availability of capital, and dramatic changes in the economy create a vibrant investment environment for bankers and their shareholders. For more than a year, the global pandemic smothered much of the industry M&A activity; now, however, bank holding companies across the region and their owners are again engaging in conversations about potential mergers, asset sales, capital raising, mergers of equals, fintech partnerships and other "Opportunities for Growth."

Plan to attend the 2021 Bank Holding Company Association Fall Seminar Oct. 4-5 at the Hyatt Regency Hotel in Bloomington, Minn. for the premier event featuring education and information on the community bank M&A arena. We are returning to our live in-person format with a schedule that includes ample time for networking and reconnecting with established friends. Plus, a recorded version of all the sessions will be available for those who still prefer a virtual meeting.

The Fall Seminar will offer a detailed overview of current merger and acquisition conditions, an analytical view of the economy in the Upper Midwest as well as across the country, the environment for raising and managing capital, tax consequences for deal-makers, plus a careful look at details such as vendor contracts, insurance considerations, communications planning, plus lots more. We are pleased to feature nationally renowned presenters from firms such as The Hovde Group, Oak Ridge Financial, Sheshunoff, Fredrikson & Byron, Winthrop & Weinstine, Ballard Spahr, Eide Bailly, Performance Trust, United Bankers' Bank and others.

This seminar concludes with a fascinating look at innovation from Sara Frasca, an expert on creativity in the workplace. Frasca blends improvisational qualities with bleeding-edge business savvy to bring a completely fresh perspective on unleashing creativity in your organization. Plan to invite your entire leadership team to join us for a celebratory luncheon focused on innovation.

Plus, join us the evening of Oct. 5 for dinner and a stage production of "The Music Man" at the Chanhassen Dinner Theatres. Spend a relaxing evening with friends enjoying one of the most enduring musicals of all time. Our transportation takes you to and from the theater from the Hyatt Regency. Our popular dinner and theater event is a great way to round out your Fall Seminar experience.

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OPPORTUNITIES FOR GROWTH

Hyatt Regency, Bloomington, Minn.

Agenda

Monday, Oct. 4

8:00 a.m. | REGISTRATION OPENS | Coffee, pastries available

8:30 to 9:25 am

What is Next for Community Banking?

Curtis Carpenter, Sr. Managing Director, The Hovde Group
Kirk Hovde, Managing Principal, Head of Investment Banking, The Hovde Group

Community banks and bankers have always bounced back after every storm — recessions, financial crisis, real estate collapse and now even a global pandemic. In this session, we will review the current state of community banking and try to look around the corner at changes and opportunities coming in the form of consolidation (drivers, pricing and trends), competitiveness and technology.

Curtis Carpenter

9:30 to 10:25 am

Bank Branches - Acquisitions, Expansions and Dispositions

Suzanne Marra, Partner, Financial Advisory Services-Valuation, RSM
Seth Craig, Senior Director, Valuation Services, RSM
Brandon Koeser, Senior Manager, Assurance Services, RSM

This session will address where existing and potential branches can add and subtract value from a bank, along with discussion on prices paid in branch transactions, impact on capital, and operational change that can be made to improve the value of branches.

Suzanne Marra

10:30 to 11:00 am | BREAK

11:00 to 11:45 am | BREAKOUT SESSION 1

Insurance Considerations for Bank M&A

Craig Collins, President, Intact Insurance Financial Services
Deb Forsaith, President, Insurance Strategies, Inc.

Our presenters will offer general guidelines for bankers planning to be involved in a bank acquisition or sale. The discussion will center around the impact of the M&A on Directors and Officers Liability, Financial Institution Bond, and Property and Casualty lines of coverage. The discussion will address what banks need to consider before beginning the process as well as some of the issues that can arise as the transaction progresses.

Craig Collins

11:00 to 11:45 am | BREAKOUT SESSION 2

Communications Planning for Your Next Deal

Becki Drahota, Principal, Mills Marketing
Sarah Bacehowski, President, Mills Marketing

Regardless of the size of your deal, you can optimize your transaction results by executing a key audience communication plan to: retain new customers, please current customers, motivate and energize employees, and impact the market. Case studies, master timelines and lessons learned will be covered.

Becki Drahota

11:00 to 11:45 am | BREAKOUT SESSION 3

Building Shareholder Value

John Adams, Principal and Head of Investment Banking, Sheshunoff Consulting

Focusing on general industry performance metrics such as earnings, net interest margin, and asset quality, in addition to public bank stock performance, we will look at the M&A trends in an effort to identify the builders of shareholder value.

John Adams

11:00 to 11:45 am | BREAKOUT SESSION 4

Due Diligence Do's and Don'ts

Joshua Juergensen, Principal, Financial Institutions, CLA
David Heneke, Principal, Financial Institutions, CLA

The due diligence process is more important than ever in a bank transaction. Everything needs to be vetted and verified. Missing key details can prove costly down the line. We'll discuss a pragmatic approach for executing this essential portion of your deal.

Joshua Juergensen

Noon to 12:45 | LUNCH, served

1:00 to 2:00 pm

Economic Update: A bumpy Transition Back to Normal

James Nowak, Vice President of Risk Management, United Bankers' Bank

The reopening of the U.S. and global economies has been very uneven and proven difficult. The Fed and the government are still heavily involved in managing economic success for both businesses and individuals. It does appear, however, they are ready to begin the process of weaning the economy from their support. What will this mean for our banking environment in the coming months?

James Nowak

2:15 to 3:10 pm

Vendor Contract Considerations in M&A

Caitlin Houlton Kuntz, Senior Associate, Fredrikson & Byron

You may have a great merger partner lined up, but if your core processing contracts don't align properly, you may discover the deal costs a lot more than anticipated. Other contracts can affect the deal as well. This session will look at the many agreements that can make or break your deal, and what you can do to make sure you are ready to make the most of your next M&A opportunity.

Caitlin H. Kuntz

3:15 to 4:10 pm

How Will New Tax Policies Affect Your Deal?

Paul Sirek, Partner, Eide Bailly

John Fischer, Partner, Eide Bailly

The Biden Administration is advocating for major reform in the tax code. We will look at the proposed changes and discuss their impact on bankers, particularly those looking to buy or sell assets.

Paul Sirek

4:15 to 6:00 p.m. | RECEPTION

Tuesday, Oct. 5

7:30 to 8:30 a.m. | BREAKFAST BUFFET

8:30 to 9:25 am

M&A Lessons Learned in the Covid Pandemic and How We apply Them Today

Anton Moch, Shareholder, Winthrop & Weinstine

This presentation will look at some of the legal ramifications and regulatory implications that arose with respect to M&A transactions during the Covid period and how that is impacting deals today. This will help both buyers and sellers to better understand what the definitive purchase agreement provisions mean and how the regulatory process can be impacted by external events and best ways to anticipate and prepare for such events.

Anton Moch

9:30 to 10:25 am

Capital Planning: More Than Just An Adequacy Exercise

Gary Svec, Managing Director, Performance Trust

When many financial institutions think of capital planning, it often involves an "adequacy" exercise. Do I have capital for growth, an acquisition or for a downturn? Capital planning today needs to be much more robust. In this session, learn how to be proactive with future capital needs, assess the impact of various forms of available capital and deploy methodologies that benefit current shareholders while solving many issues facing community banks.

Gary Svec

10:30 to 11:00 am | BREAK

11:00 to 11:45 am | BREAKOUT SESSION 1

Insurance Considerations for Bank M&A

Craig Collins, President, Intact Insurance Financial Services

Deb Forsaith, President, Insurance Strategies, Inc.

Monday session repeated

Deb Forsaith

11:00 to 11:45 am | BREAKOUT SESSION 2

Proactive PR: Don't Wait For Institutional Change; Know It Is Coming and Be Prepared

Amara Kaiyalethe, Founder and CEO, ASK Communications

Community and media relations are very important for most community banks, yet few banks have a formalized approach to selecting appropriate community partners, channeling employee interests, or utilizing local media to elevate leadership or programs. When these efforts are not strategic, it diminishes their impact and could leave banks on their heels when change occurs, such as a merger, sale of a branch, or change of key executive. In this session we discuss ways to ensure your institution's reputation does not change simply because the institution itself does.

Amara Kaiyalethe

11:00 to 11:45 am | BREAKOUT SESSION 3

How the Subdebt Boom Will Fuel Bank M&A

Adam Maier, partner, Stinson

Robert Flowers, partner, Stinson

Adam Maier and Robert Flowers of the Stinson LLP law firm have represented numerous bank holding companies issuing subordinated debt during the last two years. Learn from Stinson LLP what the crucial issues are in recent subordinated debt transactions, what type of holding companies are issuing debt, and what the value is to the issuers and investors. Additionally, learn how subordinated debt transactions could lead to an M&A boom among bank holding companies.

Adam Maier

11:00 to 11:45 am | BREAKOUT SESSION 4

CECL — It's time

Michael Flaxbeard, CPA, Senior Manager, BKD

Lyle Alexander, CPA, Partner, BKD

Our presenters will address CECL myths, tips to get your financial institution into gear and address how CECL affects mergers and acquisitions. Lyle Alexander and Michael Flaxbeard will save you from theory and generalization by applying practicability, sensibility and straight talk.

Michael Flaxbeard

Noon to 12:45 pm | LUNCH, served

1:00 to 2:00 pm

Harnessing Innovation: Fresh Approaches to Growth, Creativity and Transformation

Sara Frasca, Keynote Speaker

Sara Frasca is a world-renowned keynote speaker on innovation, creativity, and transformation. She masterfully blends creativity research with colorful and effervescent storytelling to help organizations build and maintain a culture of innovation. Drawing on many years of corporate and start-up experience, consulting for some of the largest global organizations, and her experience as an award-winning entrepreneur, Sara Frasca will share the 5 core mindsets of what make the most powerful innovators on the planet tick.

Sara Frasca

2:05 to 3:00 pm

Financial Institutions, Fintechs and M&A Transactions With NonBanks – Trends, Opportunities And Case Studies

Scott Coleman, attorney, Ballard Spahr

This session will examine mergers and acquisitions with fintechs and other nonbanks and will discuss the risks, transactions and regulatory concerns that accompany such deals, whether a financial institution is an acquirer or the target. Presentation will contain references to specific recent examples in the region.

Scott Coleman

3:00 to 3:55 p.m.

A Hitchhiker's Guide To Community Bank M&A

Craig Mueller, Senior Vice President, Oak Ridge Financial

David Steiber, Senior Vice President, Oak Ridge Financial

M&A activity is at strong post-covid levels, both in terms of volume of deals and pricing. This session will look at the characteristics of successful deal-making, post-covid, whether you are a buyer or seller. Included will be anecdotal examples from successful buyers and sellers, including David Ehlis, American Bancor, Dickinson, N.D.; John Ohlin, Deerwood Bank, Deerwood, Minn.; John Malmberg, First American Hudson, Wis., and Dan Riebe, Peoples Midwest, Eau Claire, Wis.

Craig Mueller

David Steiber

4:00 p.m. | ADJOURN

Location

Hyatt Regency
Bloomington - Minneapolis
3200 East 81st Street,
Bloomington, MN 55425

To make your reservations, please contact the hotel directly at 952-922-1234

The BHCA Group rate is $139 per night if booked by Wednesday, Sept 17, 2021

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Non-Member		$599	____	____
SINGLE-DAY:			Number	Amount
Monday Session (Oct. 4)	*Members*	$250	____	____
	Non-Members	$400	____	____
Tuesday Session (Oct. 5)	*Members*	$200	____	____
	Non-Members	$350	____	____
A LA CARTE OPTIONS:			Number	Amount
Tuesday Lunch Only	*Members*	$65	____	____
	Non-Members	$75	____	____
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The cost of the meals, entertainment and breaks included in the registration fee for this event are estimates at $85 for Monday, and $100 for Tuesday. This information is provided for your tax records in keeping with IRS deductibility provisions. By registering, you authorize the BHCA to use your image for promotional purposes. Cancellation Policy: Due to commitments and expenses, all cancellations after September 15 will by subject to $75 processing fee. We regret that no refunds will be given after Sept. 20, 2021; however, substitutes are welcome anytime. The BHCA assumes no liability for any nonrefundable travel, hotel or related expenses incurred by registrants. Cancellations or substitutions must be made in writing to Haylie@theBHCA.org.

CECL – IT'S TIME (AGAIN)

By Michael Flaxbeard

On March 11, 2020, the World Health Organization declared the Covid-19 outbreak a global pandemic. Since then, community banks throughout the Midwest and nationwide have adapted to working remotely, scrambled to fund billions of dollars of loans through the Paycheck Protection Program, and modified terms on thousands of loans to help our struggling community members and address shrinking margins brought on by incredibly low interest rates. Midwest community banks tackled these challenges while we were helping our kids learn remotely, eating room-temperature carryout, figuring out the mute button on Zoom calls, and just hoping our new Covid puppies wouldn't bark during weekly check-in calls. Notice I didn't even mention navigating all of this during an election year. All of that to say … WHAT. A. YEAR.

I know what you may be thinking: "We are on the other side of this pandemic, my employees and customers are receiving vaccinations and finally coming back to the office and branch, and this guy has the gall to bring up CECL!?"

In short, yes. But hear me out. Amid all of the COVID-19 accounting confusion, the adoption date for ASC 2016-13, Financial Instruments – Credit Losses (Topic 326), did not change. Your bank must adopt Topic 326, aka the current expected credit losses methodology (CECL), on January 1, 2023, as reflected in your March 31, 2023, call report filing.

The pandemic has most likely sidetracked adoption and implementation plans and you may feel like you are back to square one. Given mass adoption is 18 months away, CECL fervor will pick up in the coming months. Before the CECL conversation goes mainstream, allow me to dispel a few CECL myths, offer insight gleaned from the more than 150 publicly traded banks that have already adopted the standard, and offer a sensible solution to consider for your CECL problem.

Common CECL Myths

Initially, I read the CECL standard issued by FASB because I am a glutton for punishment. Recently, I re-read the standard because confusion abounds within the industry as to what is required versus what has been projected from software providers, accounting nerds, and the largest and most complex financial institutions throughout the country. While this guidance has been well intentioned and helpful to many, I believe it may have perpetuated myths in the marketplace surrounding the CECL standard.

Michael Flaxbeard

Before addressing these common myths, let me provide a simple CECL refresher. Simply put, CECL requires loans to be presented at the net amount of what is expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans in order to present this net carrying value of what is expected to be collected. The main difference between CECL and today's incurred loss model is the time period for estimating losses. Under the incurred loss model, one reserves for losses that are probable at the reporting date. CECL requires that one reserves for credit losses that are expected over the remaining life. Below are common myths related to CECL followed by reality-based responses.

Myth: *Quantitative information is required to support qualitative assumptions, such as current condition adjustments and forecast estimates.*

Reality: Topic 326 does not require quantitative assessments to support current condition adjustments or forecast adjustments, which are qualitative assumptions, much like qualitative loss factors today. Topic 326 requires estimating expected credit losses over the contractual term of loans adjusted for prepayments. Historical credit loss experience of loans with similar risk characteristics, i.e., loan pools, generally provides a basis for an entity's assessment of expected credit losses. An entity shall consider adjustments to historical loss information to reflect changes in current conditions and reasonable and supportable forecasts. These adjustments may be qualitative in nature. In plain English, the CECL gods are saying that one starts with historical loss information and adjusts for factors today and factors in the future. These factors are called the "current condition adjustment" and "forecasted loss adjustments." Nowhere within Topic 326 does it state current condition and forecast adjustments need to be quantitatively derived

CECL — It's Time (Again), *Continued on page 14*

from complex statistical models, such as regression, that predict future losses based on historical relationships of loss to changes in economic indicators such as unemployment, commodity prices, interest rate movement, etc. There is no prescriptive method outlined in Topic 326 related to current condition forecast adjustments. The development of these critical assumptions can be performed in a variety of ways, including top-level qualitative adjustments. With that being said, documentation of how qualitative assumptions were chosen, derived, and consistently applied is critical to a successful adoption.

Myth: *The use of peer losses is required when developing historical loss analyses.*

Reality: Topic 326 states historical loss information can be sourced from internal, external, or a combination of both when developing historical loss analyses. Nowhere in the topic does it state that external information, i.e., peer loss data, is required.

Myth: *An institution needs many years of historical loss information to adequately estimate future credit losses.*

Reality: Topic 326 does not state historical loss information is required for a full economic cycle, or many years. Instead, it only states that management may use a historical period that represents management's expectations for future credit losses. If management believes losses from 2010 are not representative of losses in 2024, that information should not be used. However, there may be benefit in using a long-term historical loss average to supplement periods outside of a bank's forecast period, which is typically one to two years. Having more loss information at your disposal helps support reserves without heavy reliance on qualitative loss factors.

Myth: *Financial institutions should purchase software that will assist in estimating credit losses in order to comply with the standard.*

Reality: The CECL standard does not require the use of software when developing the estimate of credit losses. It does not require specific approaches when developing the estimate of expected credit losses. Instead, it explicitly states adopters should use judgment to develop estimation techniques that are applied consistently over time and should faithfully estimate the collectability of loans. Admittedly, a little direction would be nice. While many early adopters found software beneficial specifically through process automation, the standard does not require its use.

Myth: *If my financial institution purchases software to assist in the CECL calculation, management can simply rely on its outputs.*

Reality: This myth has been a challenge to overcome. While software applications can be powerful, helpful tools, management must be able to document their understanding of conceptual design and assess the reasonableness and appropriateness of assumptions and the resulting allowance estimate. A software application in and of itself cannot tackle the CECL standard given its subjectivity.

Myth: *Financial institutions with more than $1B in total assets are no longer "smaller and less complex."*

Reality: The term "smaller and less complex" has been popularized through interagency guidance on CECL, risk management, and compliance. The agencies have yet to define what exactly is "smaller and less complex." Until then, this classification remains subjective and based on more than an arbitrary asset size.

CECL Insights & Lessons Learned

Approximately 150 financial institutions adopted CECL as of January 1, 2020. These early adopters are concentrated to publicly traded institutions. Of the approximately 1,500 banks in the Midwest, only a handful were early adopters. Further, of the 1,500 banks in the region, 1,327 are under $1B in total assets and 1,173 are under $500M in total assets as of December 31, 2020. Expectations for the vast majority of banks in the Midwest will not be the same as those banks that adopted CECL as of January 1, 2020. However, there are some universal lessons learned that should be contemplated by banks of any asset size.

Looking at the 10 CECL adopters less than $50B in assets as of March 31, 2020, with the most significant increases in reserves as a percentage of loans, all but one had an acquisition in 2018 or 2019. This increase in reserves upon adoption was expected as accounting for credit losses on acquired loans has materially changed as part of the CECL standard. Historically, purchased loans fell under separate guidance that didn't allow for the recognition of an allowance at acquisition. Under the CECL standard, an allowance for credit losses is to be recorded on purchased loans, regardless of the purchase accounting discount on those loans.

Another effect of adopting the CECL standard was an overall increase in allowance for unfunded commitments. With the adoption of CECL, increases on unfunded commitments were expected. Of the early adopters with less than $50B in total assets, 21 percent experienced a more significant effect from unfunded commitments at adoption compared to loans outstanding. Further, nearly half of these adopters indicated 20 percent or more of the total CECL allowance increase derived from reserves on unfunded commitments. This impact is due to the fact that many institutions did not previously record an allowance on unfunded commitments. CECL defines an approach and requires adopters to record an allowance for unfunded commitments that are not unconditionally cancelable.

CECL requires "reasonable and supportable forecasts" when determining expected credit losses. "Reasonable and supportable forecasts" make the standard forward looking, can be viewed as the biggest change within the standard, and are the most significant assumptions when estimating future credit losses. We reviewed public filings for 116 CECL adopters with less than $50B in total assets and noted 68 used either one (39 adopters) or two years (29 adopters). Twenty-three adopters did not disclose the forecast period. CECL does not require an entity to create an economic forecast over the contractual life of loans. Rather, for periods beyond which the entity is able to make reasonable and supportable forecasts, reversion to historical loss information is required.

A Practical Solution

I completely get it. Planning, preparing, and researching for your upcoming CECL adoption is the last thing you want to do right now. Most of you reading these words represent true community banking and feel like this standard was not intended for the size and complexity of your institution. You may not receive a financial statement audit, and you may answer solely to state regulators and the FDIC or OCC. While the market is ripe with powerful software applications, you question if the cost and complexity of those solutions is commensurate with the risk at your institution and what is truly required. To this end, you are frustrated with the academic articles pontificating on one of the most confusing and subjective accounting standards ever written by our friends at FASB.

I have always been taught to never address a problem without offering a related solution—and I believe BKD has done just that. Our team has developed "CECLsimplified." Our solution is geared toward community banks and delivers the rare one-two consulting punch: an understandable CECL tool coupled with a BKD Trusted Advisor who assists with the development and documentation of your unique CECL calculation. Our aim is not to be just another software application. Instead, our goal is to work with management to develop a CECL calculation that is easy to use and easier to understand and comes with a BKD Trusted Advisor in tow. With our help, you can be "CECLing" independently (and accurately) after initial adoption. Lately, as it relates to CECL, I have felt that I have been shouting into the empty void where practicality and sensibility used to reside. Help me fill this void. ■

Michael Flaxbeard is a senior manager at BKD.

Proactive Succession Planning, *Continued from page 7*

A well-crafted buy-sell agreement that specifies what happens to the principal owner's stock at retirement or death is essential. A buy-sell (or buy-out) agreement provides for the redistribution of shares to put control of the bank in the right hands when a major shareholder leaves the bank, becomes disabled or dies. Redemption of shares by the BHC is a common practice under such agreements, but they also can be used to transfer shares to the owner's successor, spouse or other family members.

Minimizing transfer taxes — levies on a bank owner's gifts during life and estate upon death — is a key objective in succession planning. The general approach is to maximize tax exemptions: A taxpayer may give away or bequeath up to $11.7 million in cash and other assets without paying federal gift and estate tax. (Twelve states, including Minnesota and Illinois, impose transfer taxes with lower exemptions.)

Establishing various types of trusts can be an effective way to set aside funds for loved ones while leveraging exemptions to defer or even avoid paying estate taxes. "By the proper planning and use of trusts, you can really cut that tax bill down," Stolen Grossman said.

But bank owners can run into trouble using trusts to transfer bank stock to a successor or family members. "Complex and onerous" government regulations apply to passing bank stock to another owner, including special requirements for trusts, said Patrick Neuman, a banking attorney with the Boardman Clark law firm in Madison, Wis. If a shareholder puts 5 percent or more of a BHC's stock in a trust, the Federal Reserve may find that the trust is a BHC — an outcome that any bank owner should try to avoid, he said. Boardman Clark is a BHCA Associate Member.

Potential changes in federal tax policy promise full employment for tax professionals and heartburn for bank owners trying to reduce their succession tax liabilities. Intent on tightening tax rules for the rich, the Biden administration has announced plans to lower the federal gift and estate exemption by 2026; almost double the capital-gains tax rate to 39.6 percent; and end the longstanding tax exemption for capital gains on inherited investments such as stocks.

Alison Helland, another Boardman attorney who specializes in tax and succession matters, says many owners of banks and other businesses are considering fast-tracking their succession planning in light of these proposals. All would raise taxes due at death significantly for affluent business owners and families. For example, eliminating the capital gains exemption — known as the "step-up in basis"— would subject long-term stock appreciation to capital gains tax when the shareholder dies. "[The proposals] have definitely jump-started discussions for some people that I work with," Helland said.

Changes in tax laws and other evolving circumstances — bank growth, new family shareholders, early retirement — argue for flexibility in succession planning. Noah Wilcox frequently revisits his vision for carrying on the family legacy: "Any succession plan really is a living document. It's in constant flux and you have to care for it and feed it constantly to be sure it's still relevant." ■

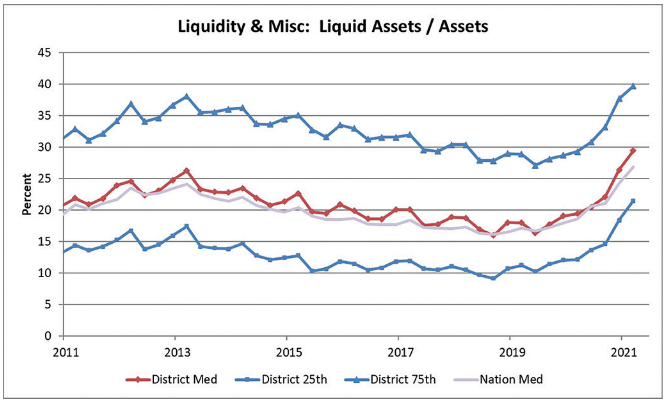
Freelance economics and business writer Phil Davies is a former editor with the Federal Reserve Bank of Minneapolis.

By Amber Guzzo

Charts provide insight into region's banking conditions

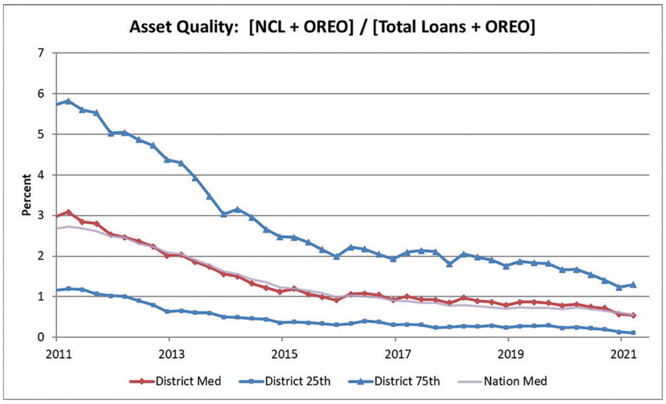
One of the Federal Reserve System's key roles is to supervise banking organizations, large and small, to ensure the soundness of our financial system. This article provides time series graphs showing a few key capital, asset quality, earnings and liquidity ratios for commercial banks in the Ninth Federal Reserve District in recent years. Each chart runs through the first quarter of 2021, and shows median, top quartile, and bottom quartile ratios for the banks in the Ninth District, as well as median ratios for banks in the nation overall. These charts show some noteworthy changes since the pandemic started in the United States in early 2020.

Capital



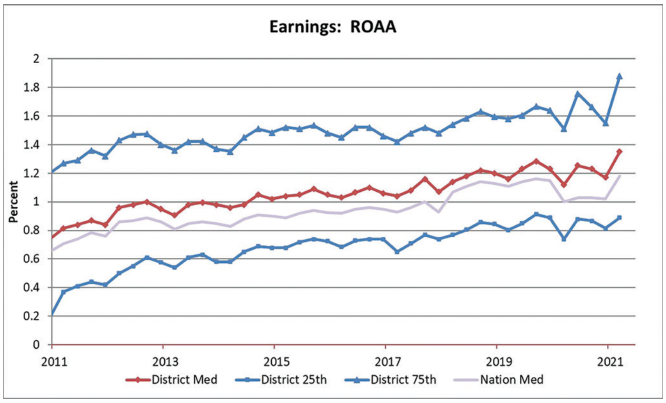
First quarter data for the Ninth District and the nation continues an overall decrease in tier one leverage ratios that started in 2020. The influx of deposits during the pandemic resulting from stimulus programs, PPP loans, and changes to consumer and business spending habits increased average assets, thereby decreasing tier one leverage ratios. Because many of the additional assets are risk-weighted at 0 percent, risk-based capital measures have not shown a similar decline.

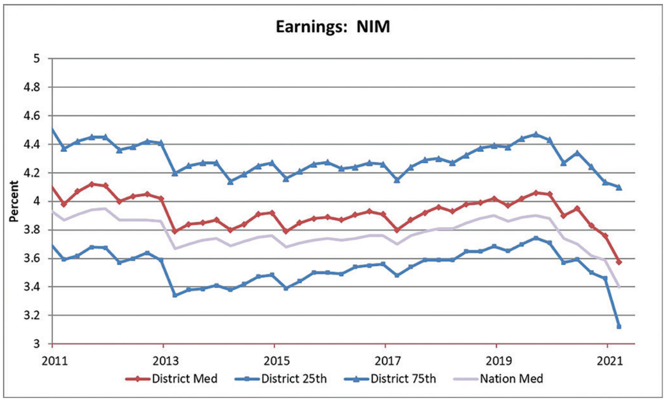
Asset Quality



This chart depicts noncurrent loans plus other real estate owned as a percentage of total loans plus other real estate owned. This data shows that, for many banks in the Ninth District and the nation, the pandemic has not had a material impact on asset quality to date, and positive trends since the last financial crisis have largely continued.

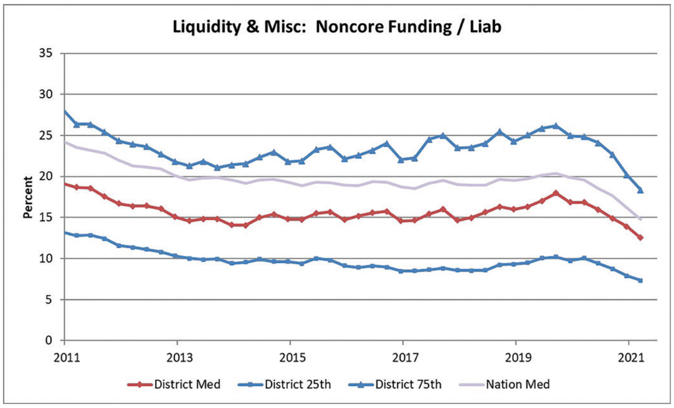
Earnings

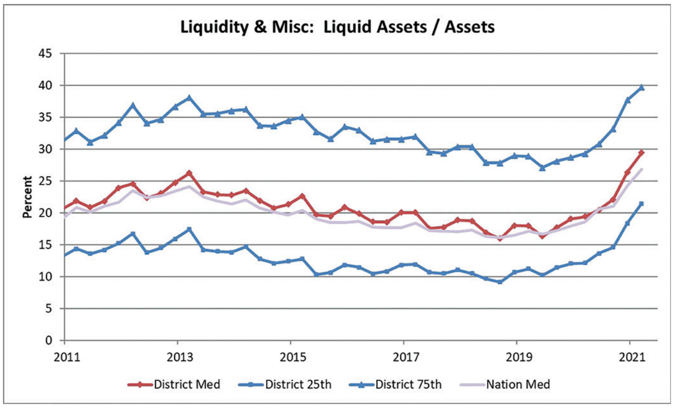




Banks' earnings shifted dramatically during the course of the pandemic. While ROAA showed some volatility in 2020 and was higher for many institutions in the first quarter of 2021, the net interest margin has been decreasing in the Ninth District and across the nation, and this decrease was particularly notable during the first quarter. The Board of Governors in a Supervision and Regulation Report released in April of 2021 attributed this decrease to generally lower interest rates and the large increase in deposits compared to loan balances, both of which shifted bank balance sheets toward lower asset yields. The NIM decline presents a persistent challenge for banks moving forward. Earnings for those banks active in the PPP lending program benefited from loan fees, which could be fully recognized as income upon loan forgiveness.

Liquidity





Some of the same factors that have exerted negative pressure on NIM have led to strong liquidity measures for banks in the Ninth District and nationwide. With uncertainty around the permanence of pandemic deposit increases and many banks feeling that they have too much liquidity, this will be an important trend to watch through the remainder of this year.

Conclusion

A strong banking system in the Ninth District has been a vital component of economic survival during the Covid-19 pandemic. Banks heeded the call to adjust to consumer savings preferences, allow for loan modifications, and support local businesses through the execution of the PPP while also changing operations to support customers and their own staff. The data included here show that the pandemic has had a mixed impact on various key indicators for banks in the Ninth District and the nation. However, despite some lingering challenges, banks have shown resilience.

This article updates some of the statistics available on the Minneapolis Federal Reserve website. We no longer publish this data on a quarterly basis, but we welcome suggestions regarding the type of information that is of interest to institutions in the region. If you have ideas, please don't hesitate to provide them to mpls.src.sshc@mpls.frb.org

Finally, we want to extend an invitation to an upcoming Federal Reserve Bank of Minneapolis virtual holding company outreach event on Sept. 2, 2021. Senior Vice President Christine Gaffney will provide opening remarks, which will be followed by discussion covering supervisory and enforcement activities in the Ninth District, economic updates from Terry Fitzgerald, and cryptocurrency and payments developments with Angela Lawson. View the invitation and registration at https://frbminneapolis.cvent.com/c/express/fa12637c-3fca-4bb6-a666-c535464c48d0 ■

Amber Guzzo is an M&A intern at the Federal Reserve Bank of Minneapolis.

Down to Business, *Continued from page 5*

A big thanks to our sponsors!

One of the reasons I feel confident about the success of our Fall Seminar is the tremendous support we are receiving from our sponsors. More than 22 BHCA Associate Members have stepped up to sponsor the Fall Seminar. These are companies that you can trust; when you need accounting, legal, technology, funding, investment banking, or other assistance, you can turn to these companies for help. We are fortunate to have such a strong base of support from our Associate Members and when they step up to sponsor our events it makes all the difference. Thank you to all our sponsors!

National Directory published

You should have recently received in the mail the 2021 edition of the BHCA National Directory of Bank Holding Companies. This is our third year publishing this resource, which presents a holding company list for each state. Each listing includes asset information and bank subsidiaries for each holding company. We mail a copy to all our members, and to nearly every holding company in the country.

We extend a special "thank you" to the research staff at the Federal Reserve Bank of Minneapolis, which assembles the information published in this directory. We simply could not provide this product without the support of the Minneapolis Fed. We are sincerely grateful for the Fed's assistance.

Consider serving as BHCA director

If you enjoy being a member of the Bank Holding Company Association, let me encourage you to think about taking your commitment to the next level. The association is run by a 10-member board. Directors serve three-year terms that run on the calendar year. New board members are elected at the BHCA annual meeting in October. We will have one board seat to fill this fall. The board meets four times per year, with responsibility for overseeing association management, helping to plan for upcoming events, and generally planning for building the BHCA. If you think you would be a good fit for a board seat, please contact me and let's talk about it. ■

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

▷ Nicolet Bankshares, Inc., Green Bay, Wis., filed to merge with County Bancorp Inc., Manitowoc, Wis., and thereby acquire Investors Community Bank, Manitowoc.

▷ The Heritage Bancshares Group, Inc., ESOP and Trust filed to become a bank holding company by acquiring 32.6 percent of Heritage Bancshares Group, Inc., and thereby acquiring shares of Heritage Bank, N.A., both of Spicer, Minn. Heritage Bancshares Group, Inc., ESOP and Trust elects to be a financial holding company.

▷ Tri Valley Bancshares, Inc., Talmage, Neb., filed to acquire First State Bank, Scottsbluff, Neb.

▷ Bank Forward ESOP and Trust, Fargo, N.D., authorized to acquire shares of Security State Bank Holding Company, Fargo, and thereby acquire shares of Bank Forward, Hannaford, both of N.D.

▷ Equity Bank, Andover, Kan., authorized to merge with American State Bank & Trust Company, Wichita, Kan., and thereby establish branches.

▷ MidCountry Acquisition Corp., Minneapolis, filed to acquire McGregor Banco, Inc., and thereby acquire Grand Timber Bank, both of McGregor, Minn.

▷ HBT Financial Inc., Bloomington, Ill., filed to acquire NXT Bancorporation, Inc., Central City, Iowa, and thereby acquire NXT Bank, Central City, Iowa.

▷ Readlyn Bancshares, Inc., Saint Paul, Minn., authorized to merge with Tripoli Bancshares, Inc., Saint Paul, and thereby acquire American Savings Bank, Tripoli, Iowa, and to acquire additional shares of Nashua Bancshares, Inc., Saint Paul.

▷ Farmers & Merchants Bancorp, Inc., Hannibal, Mo., authorized to acquire control of Farmers & Merchants Bancorp., Inc., and thereby control F&M Bank and Trust Company, Hannibal, Mo.

▷ The Scott C. Johnson and Jan L. Johnson Trust and others filed to become members of the Johnson Family Control Group, a group acting in concert, to acquire shares of Marine Bancshares, Inc., Marine on St. Croix, Minn., and thereby acquire shares of Security State Bank of Marine, Marine on St. Croix, Minn.

▷ First Bancorp of Taylorville, Inc., Taylorville, Ill., authorized to merge with Mackinaw Valley Financial Services, Inc., and thereby acquire First Security Bank, both of Mackinaw, Ill.

▷ Old National Bancorp, Evansville, Ind., filed to acquire through merger First Midwest Bancorp, Inc., Chicago, and thereby acquire First Midwest Bank, Chicago.

▷ Sarah Elizabeth ("Liza") Rowland Townsend and others of Kansas City, Mo., filed to join the Rowland Family Group, to acquire shares of Lead Financial Group, Inc., and thereby acquire shares of Lead Bank, both of Kansas City, Mo.

▷ Midwest Bank National Association, Pierce, Neb., filed to retain its membership in the Federal Reserve System following its conversion from a national to a state charter.

▷ MidCountry Acquisition Corp., Minneapolis, (MAC), a savings and loan holding company, filed to become a bank holding by merging with J & B Financial Holdings, Inc., Minneapolis, and thereby acquiring 1st United Bank, Faribault, Minn.; First State Bank of Sauk Centre, Minn.; and Red Rock Bank, Sanborn, Minn.; and merging with Northfield Bancshares, Inc., Northfield, Minn., and thereby acquiring Community Resource Bank, Northfield. MAC also to retain MidCountry Bank, Bloomington, Minn., and thereby engage in operating a savings association. In addition, MAC elects to become a financial holding company to enable MidCountry Bank to retain its ownership of MidCountry Insurance Services, Inc. and MidCountry Insurance Agency, Inc, both of Bloomington.

▷ Global Innovations Holdings, Inc., Rapid City, S.D. authorized to become a bank holding company by acquiring Global Innovations Bank, Kiester, Minn.

▷ High Point Financial Services, Inc., Forreston, Ill., authorized to acquire Durand Bancorp, Inc., Durand, Wis., and thereby acquire Durand State Bank.

▷ Notice by WaterStone Bank SSB 2015 Amended and Restated ESOP and WaterStone Bank SSB 401(K) Plan to acquire voting shares of WaterStone Financial, Inc., and thereby control WaterStone Bank, both of Wauwatosa, Wis.

▷ Community Capital Bancorp, Inc., Waukesha, Wis., authorized to become a bank holding company by acquiring Collins Bankcorp, Inc., Collins, and thereby indirectly acquire Collins State Bank.

▷ PFB Holding Company, Joliet, Ill., filed to become a bank holding company by acquiring PeopleFirst Bank, Joliet.