theBHCA.org — Winter 2021

# Bank Owner

Bank Holding Company Association Magazine

## Putting Stock in ESOPs

*Community banks can benefit from employee stock ownership*

## Fall Seminar Coverage

## Making Sense of Fed Applications

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# Bank Owner

Winter 2021



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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# Despite the challenges of the past year, there's much to be grateful for in 2021

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

As I sit down to write this column, it's the day before Thanksgiving. A time when families get together to share a meal and express their gratitude for the many gifts we all have been given. Unfortunately, COVID continues to plague this country with its looming threat of illness and an unprecedented polarization of values and actions. Not only is it affecting the way we celebrate together, but it also wreaks havoc on how we do business. The decisions we have had to make have forced us to both advance our business through an accelerated promotion of technology solutions and change the expectations we have for our employee base. Despite the many challenges faced, there is plenty to celebrate. Throughout this chaotic time, bankers have shown resiliency, creativity and offered support and continuity to the many clients we serve. Truly something to be grateful for.

With the introduction of the many COVID induced government programs, bankers demonstrated their ability to innovate and adapt quickly. Our involvement in these programs was instrumental in ensuring our clients had an opportunity to weather this pandemic. Our ability to quickly pivot to provide online support, mobile banking and new online payment systems showed how adaptable our teams and technology could be. The introduction of a remote or hybrid work model may have been reactive at the time but has now shown how flexible we can be when required. Many of these changes are most likely here to stay, and although forced upon us, they demonstrate the strength of our teams and our industry as a whole. Bankers may be more innovative than we thought. I am grateful for the opportunity to be part of this industry.

At the BHCA, COVID also challenged us to rethink our model. At one point, we were concerned that to deliver effectively on our mission — "to provide education and business connections critical to the vitality of bank holding companies" we really needed to meet in person. We also believed that the risk of getting people together during a global pandemic was one we didn't want to take. The creative team at the BHCA found a way to pull together a virtual seminar that was incredibly well received. Attendance was higher than expected and feedback was positive. The fall seminar provided another challenge, but the team pivoted once again and assembled a hybrid option that met the needs of all parties and was by all counts a success. The people who attended appreciated the return of networking and with more than 80 virtual log ins, there is evidence to suggest that the education provided was relevant and appreciated. As we look forward, we now know that Tom and his team can deliver independent of the circumstances. As the BHCA President I am truly grateful for their willingness to creatively find solutions.

As bankers, we are called upon to support the community we live in, be valued advisors to the people and business we serve, and be a constant presence in their daily lives. Over the course of the last year, we have been forced to pivot on so many fronts to make this a reality. But we did it! At the Thanksgiving table this year I do hope you were able to avoid focusing on the many activities, reunions or plans that were interrupted, but instead find time to reflect on the positive changes we were able to introduce to help simplify transactions, create balance for our employees and support the people and businesses we serve. Thank you for the opportunity to be your President throughout 2021; I was honored to lead. ■

# BHCA planning for New Year by building on successes of 2021

By Tom Bengtson
*BHCA Managing Director*

Perhaps the greatest purpose of the Bank Holding Company Association is to create meaningful, secure events where people can meet in-person to learn and discuss issues relevant to bank owners. That purpose came alive for me in October when we met again for the first time in two years. Over the course of the pandemic, we were forced to drop one of our meetings and convert two seminars to virtual events; We were able, however, to host our 2021 Fall Seminar in-person.

While I recognize that not everyone is comfortable meeting in-person, the nearly 200 people who did gather for our Oct 4-5 seminar seemed to appreciate the opportunity to meet at a live event. As you will note from the coverage in this magazine, it was an information-filled two days. But it was equally evident that the participants informed each other with first-hand accounts and personal observations that no doubt were every bit as valuable as anything from our presenters.

Sadly, we are not out of the woods yet with respect to the pandemic. Conditions seem to change by the week. We are monitoring the situation as best we can, as we make plans for 2022. At this point, we are planning for luncheons in Des Moines, Madison and Chicago. And, we hope to produce a one-day M&A themed seminar in Dallas. Watch for dates and details on all of these events. We are planning for in-person meetings, but would pivot to virtual if conditions warranted.

We expect our annual Spring and Fall Seminars in the Twin Cities to be very exciting. The spring meeting, set for May 6-7, will take place at the Omni Viking Lakes Hotel in Eagan, Minn. This is a top-ranked, brand new hotel with many unique features. It is a perfect venue for a BHCA meeting. The theme of our Spring Seminar will focus on family-owned banks and maintaining independence. Note that we are moving the two-day event to Thursday and Friday of that first week of May. Watch your email in the coming months for more information as we expect this to be one of our most exciting events ever.

### Sincere thanks to our board members

Let me congratulate Steve Goodenow, president of Goodenow Bancshares of Okoboji, Iowa, who will be joining the BHCA board of directors on January 1 to begin a three-year term of service. He was elected at our annual meeting, conducted at the end of October. Congratulations to Denise Bunbury of State Bankshares, Fargo, N.D., and Harry Wahlquist, MidWest Bancorporation, Eden Prairie, Minn., who were elected to a second term on the board.

Bankers have a lot to do. It's not like you are looking for more meetings to attend. I always find it a bit humbling that some of you would take time out of your schedules to make a commitment to the BHCA. But, of course, the BHCA could not survive without the dedication of bankers every year who agree to serve on our board to provide direction, counsel and good ideas for excellent member events and sound association management.

As we conclude our year, Mary Jayne Crocker of Bridgewater Bancshares, St. Louis Park, Minn., closes out a year as the BHCA President; Tim Siegle of Ameri Financial Group, Lino Lakes, Minn., completes a term as vice president and Scott Bullinger, American Bancor, Dickinson, N.D., wraps up his year as Treasure. Harry completed his executive board service as our 2021 immediate past president. We will open the new year with Tim as president, Denise as Vice President, Scott continuing on as Treasurer. And Mary Jayne as immediate past president. I extend my sincerest thanks to all our board members for their dedicated service to the BHCA.

### Thinking about 2022...

I am writing this column on the same day news broke that President Biden intends to nominate Jerome Powell to another term as Chair of the Federal Reserve. This year there seemed to be heightened interest in the nomination. Maybe that's because the Fed might find itself in a serious effort to contain inflation for the first time in more than a decade.

Economists have been using the word "transitory" to describe a recent increase in prices, but I think we are in for something substantial and lasting. You don't have to look very hard to find examples of rising prices. Eating out is more expensive, gas prices are way higher than a year ago, and grocery prices are rising, sometimes through higher prices and other times through smaller portions priced the same. Housing, both rent and home prices, are escalating. Cars, new and used, are more pricey than ever, if you can find one.

And none of this should come as a surprise, especially if you had an economics course somewhere along the way. We are experiencing the classic definition of inflation: too much money chasing too few goods. The money is out there. The government very efficiently pumped billions of dollars into the economy in response to the pandemic. Conversely, production of many goods slowed as companies dealt with supply chain disruptions and labor shortages.

**Down to Business,** *Continued on page 8*

# PUTTING STOCK IN ESOPS

***Community banks can benefit from employee ownership. But bank owners should consider the costs as well as the rewards of starting an Employee Stock Ownership Plan.***

**By Phil Davies**

Horicon Bank's journey into employee ownership began as a plea for liquidity; a family shareholder was planning a major purchase and needed to sell to raise cash. In response, the bank holding company created a ready market for the shares — and those of other stockholders that could come up for sale in the future — by establishing an Employee Stock Ownership Plan, a federally regulated retirement plan that invests in the stock of a firm on behalf of its employees.

Coming to the aid of a family member may have been the impetus for forming the ESOP 15 years ago, but the bank's principal owners realized that the plan also provided a means to empower employees, recruit and retain talent, and ultimately enhance the bottom line. "We thought this was an elegant solution that would incent employees and benefit the long-term value of the bank, and it's been a really important ingredient in keeping good employees here," said Senior Vice President Fred C. Schwertfeger. The $1.2 billion community bank with 19 locations in southeastern Wisconsin has regularly made the Milwaukee *Journal Sentinel's* list of top workplaces in the region.

Community banks that have implemented ESOPs credit them with boosting employee morale and performance, furnishing liquidity to shareholders, and raising capital by turning employees into investors. And by the way, ESOPs offer attractive tax breaks to small BHCs, particularly S-corporations.

But bank owners considering an ESOP should weigh the obligations along with the rewards of employee ownership. Setting up an ESOP is complex, and particularly fraught for banks because of tight federal oversight of bank stock ownership. "There can be a lot of traps for the unwary that you have to be careful about," said Josh Natzel, an employee benefits attorney with the Ballard Spahr law firm in Minneapolis.

## What's up with ESOPs?

The devil of employee ownership may be in the details, but the concept is straightforward. An ESOP is a tax-advantaged trust that holds company stock, giving employees a beneficial, usually non-voting, stake in the business. Unlike 401(k) plans, most ESOPs require no cash contribution from employees — a boon for workers hard pressed to save for retirement. Each participant has an ESOP account where stock and employer cash contributions, allocated according to compensation and/or years of service, accrue over time. Employees become fully vested in the plan after working for a minimum period (by law no longer than six years), and receive their ESOP benefits after they leave the bank.

Most ESOP stock purchases are leveraged; the ESOP trustee borrows money from the employer to buy shares from individual shareholders or the firm. The trustee then uses annual employer contributions to pay off the loan, typically over 10 to 20 years.

ESOPs are popular with community banks, although employees tend to own proportionately less of their stock compared with workers in other industries. That's because "a bunch of rules and restrictions with the Federal Reserve" come into play when an ESOP owns more than one quarter of BHC stock, said Tom Walker, head of the employee benefits practice at Minneapolis law firm Winthrop & Weinstine. Specifically, the Fed treats the ESOP itself as a BHC. To avoid onerous commitments and reporting requirements, most community banks keep employee stock ownership below 25 percent, although some institutions are 100 percent employee-owned.

As was the case at Horicon Bank, the trigger for starting an ESOP at a community bank is often demand for shareholder liquidity; by selling to the ESOP a stockholder looking to cash out is ensured a fair market price. A thirst for liquidity also led to the creation of an ESOP at Northeast Bank, a closely held institution in Minneapolis. When some large shareholders put their stock up for sale 10 years ago, "we decided that it was a really good idea to establish the ESOP to create liquidity and a secondary market for all shareholders," said CEO Thomas Beck.

By providing a market for the shares of a retiring or deceased majority shareholder, an ESOP can serve to preserve the legacy of family owners and keep the bank independent and locally owned, said John Reichert, a banking and finance attorney with Reinhart Boerner Van Deuren in Milwaukee. "An ESOP is a tool we've seen used, where people are trying to figure out, 'how do I liquidate my estate, provide liquidity but also make sure the bank doesn't get sold?' That's an area where an ESOP is uniquely situated to help."

If Northeast's ESOP continues to grow (the plan currently holds about 11 percent of Northeast Securities stock) Beck envisions it as a potential suitor for majority shareholders' stock if they should decide to sell. However, many community bank owners are loath to sell large chunks of stock to an ESOP because of the regulatory burden that comes with crossing the 25 percent equity threshold.

## 'Now they have skin in the game'

Generating liquidity or avoiding an outside sale may provide the spark for ESOP creation, but the biggest reason community banks support and continue to invest in ESOPs is the salutary effects of aligning the interests of worker and employer. "There are tremendous benefits from employee ownership, getting everybody moving in the same direction, motivated by the success of the company and being rewarded for that success," Natzel said.

Various studies have shown that firms owned by employees, especially those that are privately held, are more productive and attractive to job candidates than businesses without ESOPs. A 2000 analysis of closely held companies by researchers at Rutgers University found that employers that adopted ESOPs saw sales and recruitment increase about 2.4 percent annually over what would have been expected based on the performance of non-ESOP firms.

For Schwertfeger, sharing the wealth with Horicon's 200-some employees fits "the community banking model, which is to really appreciate our community and our employees." The ESOP has cultivated an ownership mindset among bank employees that has contributed to the bank's "remarkable employee tenure," he said, helping to retain workers who might otherwise have left. And employees are attuned to costs and their impact on the bank's earnings: "It's become almost part of the daily vernacular around here. You'll hear an IT person say, 'hey, I don't want [the cost of] this paper to weigh down my ESOP.'"

**"There are tremendous benefits from employee ownership, getting everybody moving in the same direction, motivated by the success of the company and being rewarded for that success."**

**- Josh Natze**

Beck of Northeast said employee ownership has "changed the dynamic" in the bank, engaging employees and making it easier to recruit and hold onto workers. "It's been a wonderful tool; now they have skin in the game, now they feel like they own part of the place."

For some bank owners, ESOPs have also proven an efficient way to raise money for acquisitions, branch expansion or other improvements. Substituting contributions to an ESOP for matching contributions to a 401(k) plan is a common practice for ESOP sponsors; after any loans to the trust are paid off, cash used to buy additional shares flows back to the firm as investment. Tom Geiger, CEO of the Heritage Bancshares Group of Willmar, Minn., said this is "a very significant" source of capital for Heritage Bank, a rapidly growing community bank with locations in Minnesota, Iowa and South Dakota. Heritage started its ESOP in 2014; employees currently own a third of Heritage Bancshares stock.

Whatever the motive for sponsoring ESOPs, tax incentives meant to encourage ESOP formation and expansion add to their allure. Employers can deduct stock or cash contributions to an ESOP on their federal income tax returns, subject to certain limits. Other tax breaks depend on the company's corporate structure. C-corps may deduct dividends paid on company stock held by an ESOP. S-corps, the preferred structure of many BHCs, enjoy an especially generous ESOP

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tax incentive: as a tax-exempt trust, an ESOP isn't subject to income tax on its share of stockholders' taxable income—meaning that an S-corp whose stock is 20 percent employee-owned owes no taxes on that portion of its income.

## Owning the costs

For all their uplifting effect on employees, tax advantages and other benefits, ESOPs are costly to create and sustain. Designing a plan, assembling an ESOP team, managing employee accounts and servicing ESOP debt all entail expense for BHCs, and considerable time and effort on the part of bank management and staff.

A feasibility study can help determine whether an ESOP will fly. Can the bank's stock value and earnings support the ESOP long-term? Are there shareholders willing to sell? "We did a lot of due diligence and a lot of work on it," Beck said of Northeast's ESOP. "You kind of walk through the pluses and minuses, to see if it makes sense."

**"There are some banks that have put in ESOPs that have done very little to promote their plans to employees, and not surprisingly, they don't see a great deal of benefit from them,"**

**- Tom Walker**

Most banks bring in employee benefits consultants, ESOP attorneys, accountants and other experts to assist with a thorough financial analysis that includes the impact of starting an ESOP on the bank's equity value and existing shareholders. If the ESOP gets the green light, these advisors can also help craft the ESOP's provisions — who will serve as trustee (often a BHC officer gets the nod), how stock is allocated to participants, when employees become vested — and execute the sale of stock to the ESOP.

Then the real work of managing the ESOP begins: painstaking attention to record keeping, regulatory compliance and the BHC's financial obligations, including annual contributions and repurchase liabilities. Failing to keep tabs on repurchase liabilities can have serious consequences down the road; by law privately held firms must be prepared to buy back employee shares at a price set by the ESOP when their employment ends. It's standard practice to hire a third-party administrator such as an ESOP consultant or financial services firm to manage the plan in concert with the board of directors and designated bank executives.

Conveying the plan's benefits to participants is a vital but easily neglected aspect of ESOP management. It's hard to motivate employees to do their best and stay with the bank if they don't understand how an ESOP works and the power of equity to create wealth. "There are some banks that have put in ESOPs that have done very little to promote their plans to employees, and not surprisingly, they don't see a great deal of benefit from them," Walker said.

The ESOP trustee, plan administrators and bank officers can play a role in ESOP messaging — connecting the dots between job performance, the bank's stock price and the value of employees' ESOP holdings. Many community banks hold quarterly ESOP meetings to update participants on the bank's market valuation, highlight the plan's benefits and respond to any concerns.

Horicon Bank formed an ESOP Committee about five years ago "to make employees more aware of their ownership in the organization," said CFO Robert Traylor, who sits on the committee. The committee publishes a newsletter, makes presentations to employees, and sweetens ESOP announcements with employee giveaways. At Heritage Bank, quarterly state-of-the-bank meetings put the spotlight on employee ownership, and Geiger writes a blog touting ESOP benefits. "The communication piece is important," he said. "You need to have a continual focus on educating employee-owners about what they have with the ESOP. So we do that all the time." ■

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

**Down to Buesiness,** *Continued from page 5*

Inflation, of course, can be a good thing for the banking business. Interest rates go up; that increases the margin of profit on loans. But that assumes demand. In fact, loan demand is spotty. While commercial real estate loans are holding steady, commercial and industrial loans are way down. Charging more for a product that only a small number of people want is not a great business strategy.

I am not an economist, but I can guess 2022 will be an interesting ride. Everything is going to cost more, especially labor. Tepid demand is going to make it difficult to raise prices to keep pace. I am not sure what is going to give. I think we are all eager to see what happens. ■


# More consolidation, tech competition expected in community banking

Community banking is expected to continue facing many challenges over the coming years but has already shown its resilience and adaptability to sudden adverse changes over the previous decades.

Hovde Group Senior Managing Director Curtis Carpenter and Managing Principal/Head of Investment Banking Kirk Hovde presented an overview of those challenges during the Bank Holding Company Association's Fall Seminar Oct. 4 at the Hyatt Regency Hotel in Bloomington, Minn.

Compressed net interest margins, new regulations, aging bank boards and staff, competition from fintechs, cybersecurity issues, the tight labor market and other stressors are keeping community bankers up at night. Most bankers expect PPP funds will exit their balance sheets by early next year. Not only are there fewer quality loans, peer competition remains fierce, creating more NIM compression, Hovde said. The largest banks have driven their cost of funds down to 16 basis points, while the smallest banks are in the mid-30s. After the longest economic expansion on record, the stock market quickly contracted in early 2020 as countries around the world shuttered to combat the spread of Covid-19. A massive stimulus propelled bank stocks up by year-end, a trend that has continued this year. Skepticism over bank earnings stemming from NIM compression, however, has left financial stocks out of any rally.

In densely-populated areas, the M&A game is already over. Trends suggest about one in 10 banks will sell within 24 months — 5 percent per year. The tax cuts passed under the former administration of President Donald Trump boosted returns on assets, but that is being threatened by a potential corporate tax increase proposed by President Joe Biden, Hovde noted. As of early October, there had been 151 whole-bank acquisitions in 2021 compared to a little more than 110 last year. That uptick is still lower than the approximately 250 transactions per year that took place between 2012 and 2019.

Carpenter noted M&A deal pricing is following the stock market for banks and is being propelled by buyers seeking growth in earnings per share and efficiency. Deal activity is picking up but could face regulatory challenges before long. Cash deals are considered harder to get because prices are below seller expectations. There are also signs that community banks will continue facing pressure to adopt an even greater online presence: More than 50 percent of borrowers applied for their last mortgage loan online, Carpenter noted.

Still, Hovde and Carpenter see optimism based on past perseverance community bankers have shown in trying circumstances, including the savings and loan crisis, the Great Recession and the Covid-19 pandemic.

"We're counting on that happening again," Hovde said.

Community bankers looking to sell their institutions can create more value through organic growth, and by highlighting their location and status as legacy financial institutions, Hovde added. In noting that organic growth is driving many deals, Hovde added that banks that have access to loan or customer growth are less impacted by NIM compression and are considerably more desirable for interested buyers. He cited the recent agreement for Tupelo, Miss.-based BancorpSouth to buy Cadence Bancorp in Houston, a deal creating a $44 billion-asset bank.

Mergers of equals are slightly higher now than before the pandemic — 9 percent to 7 percent, respectively. The median price to tangible book value paid by investor groups has grown from 134.5 percent to 157 percent.

More banks with strong currencies are needed to bring down deal pricing, Hovde said.

Larger banks are now focusing on acquiring financial institutions with at least a couple of billion dollars in assets instead of targeting multiple smaller banks, causing Hovde concern for smaller banks that may be losing traditional "legacy serial acquirers" as potential buyers. This threat also poses an opportunity, Carpenter said: Privately traded banks or cash buyers now face less competition when purchasing community banks. ■


# Shared culture crucial for successful merger

A shared culture is the foremost component of a successful M&A transaction, four community banker panelists agreed Oct. 5 during the BHCA Fall seminar.

The discussion included the leaders of four organizations that had either sold a bank or bought a bank. Sellers were Dan Riebe, now executive vice president of Frandsen Bank & Trust in Eau Claire, Wis; and John Malmberg, retired president/CEO at First American Bank in Hudson, Wis. The buyers were Dave Ehlis, president/CEO of American Bancor, Dickinson, N.D.; and John Ohlin, president/CEO of Deerwood Bank, Minn.

Ehlis, whose $2.5 billion organization bought the $125 million Citizens State Bank in Findlay N.D., in 2020, called on community bankers to consider making acquisitions part of their growth strategies. American Bancorp leaders proactively develop relationships with potential sellers they deem to have a good geographical fit.

Ohlin's $1 billion-plus bank has 13 Minnesota locations. One recent purchase was the $210 million Plaza State Bank in Waite Park, Minn. Deerwood Bank wanted to allocate its capital to other opportunities with a strong management and acquisition team, Ohlin noted. It picked up young talent and expertise through acquisitions, he said. Riebe, who led the Eau Claire branch of Peoples Bank Midwest before Frandsen Financial purchased the bank, noted Peoples had sought continued growth for years, entering the Twin Cities market in 2006. He decided to sell after the bank unsuccessfully tried to find new markets. Riebe stayed through the transition. Peoples Bank Midwest offered stay-bonuses for a number of key employees, and two more had two-year non-compete agreements.

Similar transactions, which peaked prior to the start of the pandemic, came to a halt once masking rules and other public restrictions went into place. During this time, public markets, especially banks, saw up to a 50 percent sell-off. Transactions have come back this year, with nearly "normal" activity levels in Q2/Q3, Ohlin noted. The percentage of banks looking to sell has grown every year. Bank stock valuations are at — and in most cases exceed — pre-pandemic levels. The NASDAQ bank index started picking up in September 2020. The 155 deals this year already surpasses last year. Most major deals are holdovers from 2020. Though the market is considered hot from an activity level, bank stock valuations are considered higher than pre-pandemic levels from a dollar perspective.

Panelists also described the steps community banks should take to ensure successful completion of deals.

Riebe's organization uses in-house and outside consultants, and evaluates premium payback, loan portfolios, deposit premiums and earnings accretion.

"I can assure you that there are going to be hiccups," he noted.

Keeping senior management on post-transition can be key for continuity. However, finding new leaders can be beneficial, especially if the direction of the financial institution changes after the sale. Gaining a glimpse of the culture can include spending time outside of work hours with leaders of the buyer or seller, possibly at dinner or in other social situations.

To the panelists, community bankers must think carefully about when to inform their employees and shareholders of a pending deal: Riebe noted telling them too soon could cause an employee exodus, but telling key stakeholders too late can also lead to tension because they want to be kept in the know. Customers are usually informed immediately following the public announcement. Riebe's organization brought in its senior group once the list of finalists narrowed to one. There is also risk in setting stay bonuses too high: Employees might initially accept such a bonus solely for the dollar figure before moving to another job soon after. ■

# Numerous tax changes proposed in Congressional bills

Congressional spending proposals are expected to have fewer adverse impacts for bankers than originally anticipated but still require further evaluation, said Eide Bailly partners Paul Sirek and John Fischer during the BHCA Fall Seminar in Bloomington, Minn.

The proposals include a $1.2 trillion infrastructure package and a $3.5 trillion, Democratic Party-championed reconciliation bill, the latter likely being reduced by nearly half following negotiations. The legislation, originally scheduled to be passed Sept. 27, has been delayed. Sirek said Democrats wanted the larger spending bill to be passed before the infrastructure package, but, in fact, the infrastructure legislation passed first.

The tax rate could change from a flat 21 percent on the revenue of U.S. resident corporations to a blended/marginal tax system. C-corps with $400,000 or less in revenue are likely to see a small tax break, but C-corps with more revenue would see higher taxes. The proposed higher rates for C-corps with at least $10 million in revenue are considered a surtax to offset the cost of lower rates for others. Capital gains rates, originally expected to nearly double from 20 to 39.6 percent, have since been adjusted to 29.6, effective on gains recognized after Sept. 13, when the bill was beginning to be drafted.

C-corps could push deductions to future years, when higher taxes are projected to kick in. Congress is discussing cutting the $11.7 million individual estate and gift tax exemptions to an inflation-adjusted $6.3 million. Bankers could consider delaying some expenses and undertaking reverse tax planning to adjust for any future hikes — recognizing income now at the lower tax rate and deferring deductions into tax years where the tax rate is higher, Sirek noted. Banks with binding deals in place on or before Sept. 13 are advised to finalize the transaction by the end of the year to utilize existing rates. ■

# Higher inflation likely a long-term trend

U.S. GDP growth will likely slow next year as the economy returns to pre-pandemic levels, said United Bankers' Bank Vice President of Risk Management James Nowak during the BHCA Fall seminar in Bloomington, Minn.

The economic outlook for small businesses will be challenging, as some have only stayed afloat during the last two years thanks to loans made through the Paycheck Protection Program. Small business earnings are expected to fall next year for only the fourth time since 1984. More than 700 firms in the Russell 3000 — 23 percent — are estimated to owe more money than their total assets. These "Zombie companies" owe banks $2 trillion. "It's very problematic," Nowak noted.

Record amounts of federal stimulus dollars have driven the recovery but also caused an influx of bank deposits, contributing to inflation. Nowak expects gas, oil and food prices will increase during the next 12 months. Ample liquidity leaves little reason for people to seek bank loans, Nowak noted, and businesses have little inventory to sell. Hiring remains a challenge: There are eight million open jobs and approximately nine million people out of the labor force, and Nowak sees vaccine mandates as a potential further economic depressor. The Fed, which started buying corporate bonds in March 2020, will end that practice by the conclusion of this year; pandemic unemployment benefits ended in September. The federal government's eviction moratorium has also ended, and the Federal Reserve is reducing asset purchases.

"You and I are going to hate the next year," Nowak said. "From a pocketbook perspective, it is going to be tough."

The return to a normal economy "will be uneven and bumpy" but likely not lead to an economic recession or contraction, Nowak noted. The bond market is not panicking, and rate increases continue at a slow and steady pace. There is $17 trillion in negative-yielding debt around the globe and much demand. Reduced government stimulus spending should spark bank lending, Nowak said, and loan growth is expected to begin to accelerate if past trends continue. The economy is in mid-cycle, Nowak said, and interest rate hikes should begin again late next year.

"It's a return to normal, and so it's important that we have 'normal' in the back of our minds as we talk about things," Nowak added. ■

OPPORTUNITIES FOR GROWTH
FALL SEMINAR COVERAGE


# Reverse due diligence necessary in nonbank deals

Banks that consider doing deals with nonbanks or fintechs should be prepared to conduct extensive "reverse due diligence." Furthermore, it may make sense for banks to request more earnest money in these deals. These suggestions came from Ballard Spahr Attorney Scott Coleman during his Oct. 5 presentation at the BHCA annual Fall seminar.

Though the majority of bank transactions still involve other banks, there are more nonbank buyers and credit union acquisitions than before, Coleman noted. In Minnesota alone, Royal Credit Union and Wings Financial have purchased community banks. One key driver for these changes is a challenge to the previous bank partnership model: Coleman noted that the True Lender Doctrine has resulted in nonbanks shifting their approach from working with banks to seeking their own charters.

Coleman spoke of a litany of challenges community banks face in accepting credit union purchase offers, including the ongoing lobbying bank industry groups are undertaking to revoke the tax-exempt status of credit unions, due diligence uncertainties such purchases entail, and an unwillingness among credit unions to absorb the legal and credit risks a community bank buyer would find negligible. Banks must go through a voluntary liquidation process, which some sellers might find make credit union buyers less attractive, Coleman noted.

Coleman advises community banks to push to attend pre-filing meetings, ask for more earnest money when entering into a purchase agreement with nonbanks, and require the money be forfeited if regulatory approval is not secured when entering into a purchase agreement with nonbanks. Coleman urged bankers to look closely at the nonbank's reputation, plans, capital, growth projections, proposed management changes and affiliate relationships before committing to doing any deals with them.

From a seller's perspective, the biggest transaction risk involving a nonbank buyer is whether the acquirer can compile an approvable application. Such transactions would likely be held to the same standards as *de novo* applications and could raise Reg W issues, Coleman noted. Also, the time from signing to closing is likely to be greater, which increases the risk of a transaction-canceling material adverse change. Banks should be prepared to ask nonbanks why they want to acquire their institutions before agreeing to do so, he added. ■

# Communication, document reviews key in M&As deals

Strong communication with employees to ease uncertainty and ensure proper governance is essential for successful M&A transactions, said Tony Moch, an attorney with the Minneapolis law firm of Winthrop & Weinstine.

Moch, a presenter during the BHCA Fall Seminar, said Covid-19 caused banks to undertake more due diligence and ensure that fiduciary duties were properly addressed.

Moch listed a number of M&A fundamentals, including:

- Assessing challenges likely to impact employees and customers. There are a number of ways organizations can keep their employees through a deal, including adopting a stay-bonus program. Buyers desire more insight on the seller's organization before finalizing a deal. In times of uncertainty, regulators focus more on potential issues and look to ensure that buyers have done their due diligence.

- Monitoring your organization's best interests while complying with requirements. Bankers must show regulators how their organizations have stayed on top of problem assets. Also, banks must evaluate the impact of any material adverse changes, how the seller's standard operating policy matches the buyer, and employee compensation.
- Evaluating master purchase agreements and other governing documents. Bankers need to understand internal and external bylaws. Reviewing vendor contractors is also particularly essential if you time your deal with a termination period or if you have given advance notice but the deal takes longer than expected. Other necessary steps include deciphering breakup fees and walkaway clauses.

During the early stages of the Covid-19 pandemic, uncertainty caused a sharp reduction in M&A deals, Moch noted. An infusion of government stimulus checks left banks shifting their focus to internal operations, further stunting M&A activity. Buyers are also informing regulators of their capital levels and how they plan to staff/manage the combined organization.

More attention has been given to post-closing discussions, operating covenants and problem assets during the pandemic. Non-compete agreements, already sometimes disfavored by the courts, became even more difficult to enforce with the onset of remote work. More buyers are reaching out to key regulators to preview their M&A strategies and undertaking more due diligence, Moch noted. ■

# Bankers must consider many factors during M&A transactions

The successful execution of a merger or acquisition by a community bank requires bankers to utilize internal and external experts, and identify and assess credit, financial, reputational and cyber risks, said CliftonLarsenAllen CPAs Joshua Juergensen and David Heneke Oct. 4 during the BHCA Fall seminar.

Community banks must also evaluate the underwriting standards of the seller or buyer, how the other organization in the proposed deal handles write-ups and risk management, and the possible impact of any unknown complications, Heneke noted. Also, identifying and confirming synergies and valuation models along with providing input on definitive agreements, execution and integration are keys.

Early communication with core providers is essential. Community banks shouldn't enter into seven-to-ten-year core contracts if they expect to be involved in an M&A transaction in the near future. Reputational risk is also a key consideration, including the impact a deal might have on employees, institutional expertise, community involvement and customer expectations. For long-term leases, purchasing banks should understand any agreement terms and renewal options. Juergensen noted that planned transactions paused at the beginning of the pandemic are now resurfacing, causing an influx of bidders.

Heneke said community banks should immediately undertake fair value analysis and account for the six to eight months it takes to transfer core systems. "Be ready to adapt," he added. Heneke has seen banks develop a sometimes detrimental competitive drive to purchase another bank after coming up short in previous attempts, an approach which sometimes leads to buyers paying more than market. He emphasized that banks purchasing another institution do not necessarily need to be committed to acquiring an entire loan portfolio.

"It doesn't have to be an all-or-nothing [deal]," Heneke said. "It's important to kind of set that framework so that you don't go beyond that and get yourself caught up in paying more than you are willing to."

M&A considerations have changed substantially during the past several years. Five to 10 years ago, interest rates were low and community bank valuation discounts closely aligned with allowances. Now, Heneke noted that many banks still sit on loans from that time, causing rate premiums to sometimes completely overpower the credit component of the discount. ■

# Tech Can Help Bankers Make Most of Branching Changes

Community bankers should use data to modify physical branch settings as Covid-19 and increased mobile banking usage continue to transform the industry, said RSM Senior Manager Brandon Koeser during the BHCA Fall seminar.

Koeser cited a recent S&P banking poll that found more than half of respondents had visited branches less frequently since the pandemic began. Another 38.4 percent reported no change. Separately, 52.3 percent said they would not change how often they visit the bank in the future. Of those who had gone to a physical bank, more than half had done so to withdraw or deposit their cash and used an ATM, all tasks that can be handled remotely. Less than 8 percent received help for car, personal or business loans.

Net branch closings continue to increase, from 1,423 in 2019 to 2,136 last year, rising again to 2,283 this year as of early October. There have been net decreases in the number of banks in nearly every Upper Midwest state.

The S&P data, Koeser said, should be used by community banks to decide how many employees — and their specific skill sets — they need. To determine an appropriate branch strategy, Koeser suggested analyzing data on transactions, traffic patterns and demographics. Banks are already facing challenges in attracting employees due to labor shortages. As some banks raise starting wages to $15 or even $25 per hour, especially in more populous settings, Koeser said banks must decide whether it is feasible to hire employees at that salary range, especially with the heavier use of mobile banking.

Bankers should weigh the costs, benefits and efficiency gains of introducing more technology into their banks, not the cost of individual transactions, he noted. Branches must still be thought of as convenient options, "community pillars" and "deterrents to new competitors," Koeser added. This approach could include fostering a welcoming atmosphere similar to a coffee shop, or clearly outlining the importance of community banking to the unserved and underserved.

"Experiences don't just happen; they are created," Koeser added. ■

# Extensive evaluation of vendor contracts needed in M&A deals

Buyers and sellers need to extensively review vendor contracts before finalizing an M&A transaction, said Caitlin Houlton Kuntz, Fredrikson & Byron senior associate. The attorney identified potential issues related to vendor contracts during a general session presentation at the BCHA Fall Seminar in Bloomington, Minn., on Oct. 4.

Those reviews, she said, could include examining current and complete copies of vendor contracts. Provisions related to termination, conversion and usage fees, conversion scheduling, exclusivity and notice requirements, Houlton Kuntz noted, merit particular attention. She also urged bankers to watch for sometimes-hidden assignment expenses or transaction fees.

One of the worst decisions community bankers can make during an M&A transaction is negotiating solely through an executive leadership team or board of directors. Instead, Houlton Kuntz advised bankers to involve their legal team, consultants and financial advisers. Banks considering a transaction during the next two years should aggressively negotiate fees with vendors and avoid seven-to-10-year contracts.

In some cases, early termination fees are worth millions, but not every such fee can be consolidated in one provision. Community bankers are advised to speak with their vendors if something does not look right and confirm any deconversion fees or caps. Scheduling can be challenging and requires coordination — separate non-disclosure and deconversion agreements could be necessary. Most large contracts include exclusivity provisions and can cancel or charge large fees if customers use another vendor while under contract. Some assignment clauses include due diligence rights for vendors or obligations for assignees. Even if contracts do not require notice or consent, Houlton Kuntz said it is good practice to provide such information.

Houlton Kuntz cautioned bankers to "proceed carefully" when planning post-closing data conversions with temporary holdover contracts and interim manual processing. Sellers should aggressively negotiate early termination fees, she said. ■

# Community banks in ideal spot to buy, sell sub-debt

Now is an ideal time for community banks to buy or sell sub-debt, said Gary Svec, managing director of Performance Trust. Svec addressed bankers at the BHCA Fall Seminar in Bloomington, Minn.

Institutional investors, however, have said there are "dark clouds on the horizon for community banks," Svec added, for a number of reasons: Their belief that the current yield curve will significantly change in the foreseeable future, efficiency ratios being too high, ongoing hikes in technology costs, and the common narrative that small banks will likely not be able to effectively compete with fintechs.

Svec said by having debt capital now, banks can immediately improve peer comparisons, pay off senior debt, stabilize capital structures, and gradually increase shareholder liquidity. Most community banks have an aging shareholder base, are experiencing uncertainty, and could want to reduce risk in their portfolios, he added.

Larger banks do not pose less risk than community financial institutions in terms of buying sub-debt, Svec said. Institutional investors enjoy investing in community banks because they grow faster than larger financial institutions, and smaller banks have traditionally sold to larger groups at a premium. Although Svec noted the FDIC views the ideal capital ratio to be 100 percent, most community banks "ran circles" around larger banks with PPP loan allocations. Banks have outgrown their earnings for the first time in a while, he said. ■

# Community bankers address CECL

Community bankers are starting to place CECL on the front-burner, a little more than a year before the mandated implementation date.

BKD Partner Lyle Alexander and BKD Senior Manager Michael Flaxbeard discussed CECL and how banks can successfully adopt rules for implementing the new accounting requirements. The pair spoke at the BHCA Fall Seminar.

Under CECL, the allowance for credit losses is a valuation account, considered the difference between the financial assets' amortized cost basis and the net amount expected to be collected on the financial assets. The standards apply to all banks, savings associations, credit unions and financial institution holding companies. Approximately 150 financial institutions had adopted CECL by the beginning of 2020.

The crucial difference between today's incurred loss model and CECL is that the current incurred loss model requires reserving for losses that are probable at the reporting date. CECL also requires reserving for credit losses that are expected over the remaining life. To estimate expected credit losses, institutions will use a wider range of data than under U.S. generally accepted accounting principles.

The CPAs said there is still the erroneous belief that banks cannot use in-house software programs for CECL. Software applications and purchases are not required, especially for smaller banks that can handle the process in Microsoft Excel, they said. Although some financial institutions believe they must use peer-loss information, there is nothing definitive requiring that for banks that have not experienced extensive losses.

Flaxbeard added that CECL requires a reserve on an unfunded commitment before applying the same loss rate to pools and segments. Banks must also provide documentation on any assumptions of segmentation, historical losses utilized, range of historical losses, prepayment assumptions, forecast adjustments and current condition adjustments, showing their work on how they successfully adopted the platform. ■

# Keynote speaker calls on bankers to embrace change, 'press the envelope'

BHCA keynote speaker Sara Frasca called on community bankers to embrace change and take unique approaches to growing their businesses. "We must continue to press the envelope, especially in these times of change," Frasca noted. She called on bankers to remember the lessons she sees as essential for innovation:

- Every barrier can be penetrated.
- Embracing change and seeking continuous improvement.
- "Changing the rules to get the jewels," including possibly adopting clever advertising strategies and undertaking novel approaches to their operations. Frasca mentioned one children's hospital having window washers dress up like action heroes to surprise hospitalized children.
- Fighting through adversity. ■

## New to BHCA

**The Bank Holding Company Association welcomes a new holding company member:**

**First National Financial Services**
John Houlton, president
Elk River, Minn.
First Bank of Elk River

**The Bank Holding Company Association also welcomes a new Associate Members:**

**Fringe Benefits Design**
Todd Mathison
Retirement Trust Officer
Bloomington, Minn.

**Fringe Benefits Design** is a full service retirement plan and investment management organization. We handle 401(k)s, 403(b)s, VEBA, HSA, Cash Balance Plans, Deferred Benefit and non-qualified plans.

By Linda Anderson, Mike Scott and Darcey Quist

# Making Sense of Membership and Merger Applications to the Federal Reserve

Any state-chartered bank is eligible to become a member of the Federal Reserve System, subject to an application process. Member banks invest in capital stock of their regional Federal Reserve Bank, and they also vote for directors of that Reserve Bank. Becoming a member also means that the Federal Reserve, rather than the FDIC, serves as the member bank's primary federal supervisor.

The application for membership in the Federal Reserve System is somewhat unique in that the Federal Reserve may conduct an examination in connection with the application. This article is intended to provide transparency regarding the examination and application process. Moreover, because applications by existing state member banks to merge with banks that are not also state members may involve a similar examination, we included some information regarding merger applications near the end of the article.

## Membership Applications

To become a state-chartered member bank, an application is filed with the Reserve Bank using the form FR 2083A/B/C (Application to the Board of Governors of the Federal Reserve System for Membership in the Federal Reserve System). This form should be used for an application filed by a newly organizing bank that seeks to become a state member bank, or by an existing state or federally chartered bank or savings institution that seeks to convert to state member bank status.

The factors considered in applications for membership are an institution's financial condition, including capital adequacy and future earnings prospects, the general character of an institution's management, the institution's record in meeting the convenience and needs of the community, and whether its corporate powers are consistent with the purposes of the Federal Reserve Act (i.e., whether the institution is primarily engaged in the business of banking). There is no public notice requirement for a membership application.

Expedited applications can take as little as 15 days for well-capitalized institutions with CAMELS and compliance ratings of 1 or 2, a satisfactory CRA rating and no major unresolved supervisory issues. For other membership applications, the Federal Reserve normally acts within 30 to 60 calendar days unless the Federal Reserve notifies the applicant that the processing period is being extended.

Federal Reserve membership does not convey FDIC insurance or a state bank charter. A separate application would need to be filed with the FDIC and appropriate state regulator for a *de novo* state member bank.

## Merger Applications

State member banks must file a bank merger application with the Federal Reserve System before merging with another institution if the state member bank will be the surviving entity. The bank merger application is filed on the Interagency Bank Merger Act Application form FR 2070. A merger application has publication requirements. The applicant must publish notice of its proposal in a prescribed form in newspapers of general circulation in the communities served by the head offices of the merging banks. The notice must be published on at least three occasions at appropriate intervals. The last publication of the notice needs to appear at least 30 days after the first publication.

## Application-related Examinations

Federal Reserve Supervision and Regulation Letter SR 15-11 / CA 15-9 provides an explanation of the criteria for whether the Federal Reserve will conduct safety-and-soundness and consumer compliance examinations in connection with membership or merger applications. If an examination is required, it is helpful for applicants to wait to file the application until the examination findings are available.

Banks considering membership in the Federal Reserve System should contact their regional Federal Reserve Bank for guidance and assistance prior to submission of an application for membership. We also encourage existing state member banks to consult with Reserve Bank staff prior to filing a merger application. In these situations, we will determine whether an examination is required, provide guidance regarding the application process, and discuss the timing for filing the application. The Federal Reserve Bank of Minneapolis Mergers and Acquisition staff is available to provide guidance regarding these and other matters. Questions may be submitted to MA@mpls.frb.org.

For those viewing this article in printed form, the following URLs correspond to the links in the article above. All documents are available through www.federalreserve.gov:

- **Membership application forms:** https://www.federalreserve.gov/supervisionreg/afi/smfilings.htm
- **Merger application form:** https://www.federalreserve.gov/supervisionreg/afi/smfilings.htm
- **Publication information:** https://www.federalreserve.gov/supervisionreg/afi/res_news_minn.htm
- **SR 15-11 / CA 15-9:** https://www.federalreserve.gov/supervisionreg/srletters/sr1511.htm

*Linda Anderson, Mike Scott, and Darcey Quist are senior M&A analysts at the Federal Reserve Bank of Minneapolis.* ■

# Holding Company Transaction Report

Here are selected recent bank holding company filings with the Federal Reserve Banks of Chicago, Minneapolis, Kansas City and St. Louis

▷ First State Fremont, Inc., Fremont, Neb., authorized to acquire Two Rivers Bank, Blair, Neb.

▷ Readlyn Bancshares, Inc., Saint Paul, Minn., authorized (1) to merge with Tripoli Bancshares, Inc., Saint Paul, and thereby acquire American Savings Bank, Tripoli, Iowa; and (2) to acquire additional shares of Nashua Bancshares, Inc., Saint Paul.

▷ American Bancor, Ltd., Dickinson, N.D., filed to acquire Financial Security Bank, Kerkhoven, Minn.

▷ First Interstate BancSystem, Inc., Billings, Mont., filed to merge with Great Western Bancorp, Inc., and thereby acquire Great Western Bank, both of Sioux Falls, S.D. Additionally, First Interstate Bank, Billings, filed to merge with Great Western Bank, Sioux Falls and establish branches

▷ Gene R. Mottes, Iron River, Mich., filed to acquire shares of MSB Bankshares, Inc., and thereby acquire shares of The Miners State Bank, both of Iron River.

▷ Opportunity Bank of Montana, Helena, filed to merge with First Community Bank, Glasgow, Mont., and establish branches.

▷ PB Family Bancshares, Inc., Hastings, Minn., filed to become a bank holding company by acquiring Premier Bank Minnesota, Farmington, Minn., and Premier Bank Rochester, Minn.

▷ Pamela J. Bjerke, Rice, Minn., filed to acquire control of Stearns Financial Services, Inc., by becoming a trustee of Stearns Financial Services, Inc., Employee Stock Ownership Plan and Trust, both of St. Cloud, Minn., which owns Stearns, and thereby indirectly owns Stearns Bank N.A., St. Cloud, Stearns Bank of Upsala, N.A., Upsala, Minn., and Stearns Bank of Holdingford, N.A., Holdingford, Minn.

▷ Kyle Heckman, Lafayette, Colo., individually and as trustee of the Flatirons Bank Employee Stock Ownership Plan and Trust, Boulder, Colo., filed to acquire shares of FBHC Holding Company, Boulder, and indirectly acquire shares of Flatirons Bank, Boulder.

▷ First Western Financial, Inc., Denver, authorized to merge with Teton Financial Services, Inc., Wilson, Wyo., and thereby acquire Rocky Mountain Bank, Jackson, Wyo.

▷ Frandsen Financial Corporation, Arden Hills, Minn., authorized to acquire Bank of Zumbrota, Minn., and Pine Island Bank, Pine Island, Minn.

▷ MidCountry Acquisition Corp., Minneapolis, authorized (1) to become a bank holding company by merging with J & B Financial Holdings, Inc., Minneapolis, and thereby acquiring 1st United Bank, Faribault; First State Bank of Sauk Centre; and Red Rock Bank, Sanborn, all of Minnesota, and by merging with Northfield Bancshares, Inc., and thereby indirectly acquiring Community Resource Bank, both of Northfield, Minn.; and (2) to retain MidCountry Bank, Bloomington, Minn., and thereby engage in operating a savings association and (3) to acquire First State Agency, Inc., Sauk Centre, and thereby engage in general insurance agency activity.

▷ Southern Wisconsin Bancshares Corp., Inverness, Ill., authorized James G. Fitzgerald Trust and others to join the Fitzgerald Family Control Group to acquire additional shares of Southern Wisconsin Bancshares Corporation and thereby acquire shares of Farmers Savings Bank, Mineral Point, Wis.

▷ The Foy 2021 Spousal Trust, Milwaukee, and others filed to join the Foy/Lukas Family Control Group and acquire shares of Community Bancshares of Wisconsin, Inc., and thereby acquire shares of Cornerstone Community Bank, both of Grafton, Wis.

▷ Iowa State Bank, Hull, Iowa filed to purchase and assume substantially all of the assets and assume certain liabilities of Iowa Prairie Bank, Brunsville, Iowa, and establish branches.

▷ Entrepreneurs Bancshares, Inc., Bloomington, Minn., filed to become a bank holding company by acquiring a *de novo* bank, EntreBank, Bloomington, Minn.

▷ Independent Bancshares, Inc., Excelsior, Minn., filed to acquire State Bank of Wheaton, Minn.

▷ Citizens State Bank, Wisner, Neb., filed to merge with Bank of Newman Grove, Neb., and to establish a branch.

▷ Rich Land Bancorp, Inc., Olney, Ill., authorized to merge with TNB Bancorp, Inc., and thereby acquire TNB Bank, both of Tuscola, Ill.

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

▷ The 2021 Katz Dynasty Trust, Milwaukee, and others filed to acquire shares of Resource Bancshares, Inc., and thereby acquire shares of Resource Bank, N.A., both of DeKalb, Ill.

▷ Friendship Bancshares, Inc., Linn, Mo., filed to acquire Bank of Saint Elizabeth, Saint Elizabeth, Mo.

▷ Notice by The Samuel D. Gohn Irrevocable Trust, filed to acquire shares of West Plains Bancshares, Inc., and thereby acquire shares of West Plains Bank and Trust Company, both of West Plains, Mo.

▷ Robert Raymond Sharkey, Westhope, N.D., and Laura Sharkey Rowell, Windermere, Fla., filed to acquire shares of Peoples State Holding Company, and thereby acquire shares of Peoples State Bank, both of Westhope.

▷ National Bank Holdings Corp, Greenwood Village, Colo., has elected to become a financial holding company.

▷ Notice filed by Kristanne Joy Becker Hoffman Family Trust 2021, Jacksonville, Ill., to acquire shares of Farmers Holding Company, and thereby acquire shares of The Farmers State Bank and Trust Company, both of Jacksonville.

▷ Southern Bank, Poplar Bluff, Mo., filed to purchase certain assets and assume certain liabilities of the Cairo, Ill., branch of First National Bank, Oldham, S.D., and to retain the acquired facility as a branch.

▷ U.S. Bancorp, Minneapolis, filed to acquire MUFG Union Bank, National Association, San Francisco, Calif, a direct wholly-owned national bank subsidiary of MUFG Americas Holdings Corporation, New York, NY, and an indirect subsidiary of Mitsubishi UFJ Financial Group, Inc., Tokyo, Japan

▷ Community Bancshares, Inc., Seneca, Kan., filed to acquire VisionBank, through the merger of its newly formed subsidiary, CBI Acquisition Corp, Seneca, into BOTS, Inc., parent of VisionBank, both of Topeka, Kan.

▷ Van Diest Investment Company, Webster City, Iowa filed to acquire NorthStar Bank, Estherville, Iowa.

▷ Notice filed by The JFD Class B Common Trust, Jackson, Wyo., and others to acquire 25 percent or more of FB Corporation, Creve Coeur, Mo., the parent company of First Bank, Creve Coeur.

▷ Friendship Bancshares, Inc., Linn, Mo., authorized to acquire shares of Grey Mountain Holdings, Inc., Fulton, Mo., and thereby acquire Investors Community Bank, Chillicothe, Mo.

▷ Grey Mountain Holdings, Inc., and GM Acquisition Sub, Inc., both of Fulton, Mo., authorized to become bank holding companies by acquiring IFB Holdings, Inc., and acquiring shares of Investors Community Bank, both of Chillicothe, Mo.

▷ Old Second Bancorp, Inc., Aurora, Ill., authorized to merge with West Suburban Bancorp, Inc., and thereby acquire West Suburban Bank, both of Lombard, Ill.

▷ First Laurel Security Co., Laurel, Neb., authorized to acquire shares of First Laurel Security Co., parent of Security Bank, Laurel, Neb.

▷ Stilwell Activist Investments, L.P, and others filed to acquire up to 14.99 percent of CIB Marine Bancshares, Inc., Brookfield, Wis., and indirectly acquire shares of CIBM Bank, Champaign, Ill.

▷ Bank Michigan Financial Corporation, Brooklyn, Mich., filed to become a bank holding company by acquiring Bank Michigan, Brooklyn. ■

21 BHCA FALL SEMINAR

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