theBHCA.org — Spring 2023

Bank Owner

Bank Holding Company Association Magazine

Spring Seminar Preview

Thoughts on Bank Supervision

Wisconsin Banker fills BHCA board vacancy

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Bank Owner

Spring 2023

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 email us at info@thebhca.org.

BHCA
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BANK HOLDING COMPANY ASSOCIATION

www.theBHCA.org

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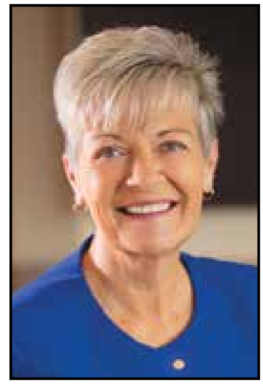
It's the people side of the business that brings life to banking



By Denise Bunbury
State Bankshares, Inc. (Bell Bank)
Eau Claire, Wis.

One thing I love about my job as senior vice president/correspondent banking business development officer for Bell Bank is traveling about to meet people and talk to them about their bank. I have been in correspondent banking since 2009, the last seven years with Bell Bank. The headquarters of the bank are located in Fargo, N.D., but my home base is in Eau Claire, Wis., and I call on bankers throughout the region.

I love to hear the "people" stories, where bankers share what's going on in their bank, their community or even their family. I have been calling on some bankers for a long time, and one of my favorite things to do is to catch up with someone who I haven't seen in a couple of years. The business update is always appreciated, but stories of growing kids, family developments, home improvements, and other milestones always warm my heart most.

We are in a very interesting time for the economy and the banking industry. Many bankers tell me they are being cautious. Interest rates are rising, and loan demand in many places is softening. In some places, bankers are provisioning at higher levels even though asset quality is generally good. The last rough patch in banking was 15 years ago; that's before many of today's active bankers got into the business.

I am looking forward to the Spring Seminar, set for May 1-2 at the Westin Hotel in Edina, Minn., where we will get detailed information about the banking landscape and, hopefully, some ideas about how to navigate it all. The event closes with a luncheon featuring Doug Ramsey, the chief investment officer at The Leuthold Group, one of the top financial analyst firms around. Whenever I attend a BHCA event, I come home with tons of ideas and lots of notes from the many general session speakers and breakout session leaders. I know this year's Spring Seminar is going to be as informative as ever.

Let me introduce myself

Clearly, I am a fan of the Bank Holding Company Association, mostly because of the many outstanding people I have met participating in BHCA events. I have served on the BHCA board of directors since 2019, and I became president of the association on January 1, beginning a one-year term. As this is my first column as president, let me tell you a bit about myself.

Prior to joining Bell Bank in April of 2016, I worked at Bankers' Bank in Madison, Wis., as a correspondent lender. Prior to that, I worked at First Business Bank, Madison, as a commercial loan officer. All told, I have worked in banking for more than 35 years. I also try to engage in the industry as much as I can. I currently serve on the Board of the Wisconsin Bankers Foundation, which is an affiliate of the Wisconsin Bankers Association.

As a business development officer for Bell Bank, I call on bankers in Wisconsin, northern Illinois and the Upper Peninsula of Michigan. My work gives me the chance to help community banks succeed. Community banks are really the heart of any community. They keep those communities going and thriving!

When I'm not working, I like to golf, quilt, cook, volunteer, and spend time with my dog "Harley," friends and family. (Being the eldest of seven, it's a big family.) I have a grown daughter and her family that I am fortunate to visit frequently, who live in the Twin Cities.

I find that being a board member of the Bank Holding Company Association has given me another rewarding opportunity to be involved with community banks and to get to know their

President's Observations, *Continued on page 14*

Leadership thoughts provoke reflection, inspire aspiration

I consider myself to be a student of leadership. I like to learn from people who seem to know how to lead groups of people. Every month, I read articles online and in print by people who claim to have some insight into successful leadership.

Last October, we had a proven leader as the dinner speaker for our 40th anniversary celebration: Bill Lentsch, a former senior executive at Delta Airlines. He had 31 years at the company, and led thousands of employees during that time, including during the 2020-21 pandemic when all the traditional rules for running a company seemed to go out the window. But real leadership is timeless and no matter what conditions you might be navigating, good leaders seem to find a way to encourage their people to make the most of the situation, whatever it is.

I had a chance to follow up with Bill after the seminar, and he shared with me several axioms about leadership, as he sees it. Most of the statements seem like home runs to me, and I thought you might enjoy getting a peek at them too. As bank owners and senior managers, you have a very important leadership role. Most of these statements are probably familiar to you, but collected as Bill has grouped them, they make a real statement, whether representing something new or simply as something that is a reminder.

Bill's two absolutes:

1. Family comes first.
2. Have fun.

What is Leadership?

1. Managers control the way company policies and procedures are followed. Leaders free people to fully utilize their talents, skills and abilities to do good things.
2. A leader is someone who has followers. This begs the question: "Why would others want to follow me?" How you treat me, how you encourage me, how you support me, how you respond to adversity, how you listen to me, will determine whether I want to follow you.
3. People would rather follow a leader who is always real versus one who is always right.
4. A leader is someone who has the ability to shape and align others toward a shared vision.
5. A leader is someone who achieves power, not through telling, but through guiding, coaching, modeling and creating an environment where individuals are inspired to do their best.
6. In the world of leadership, as in all relationships, intentions are meaningless. Actions matter.
7. Influential leadership is not about charisma; it's about character.
8. An influential leader is kind and empathetic. Many times, what people need is not a brilliant mind that speaks but a special heart that listens.
9. Influential leadership is about having clear values and demonstrating a commitment to living those values.
10. Influential leadership is about modeling positive attitudes and behaviors that others want to emulate.
11. Influential leadership is about building a sense of community/team where people feel their work is important and they are important.
12. As an influential leader, you should care more about your people than yourself. Your team is not about making you look good. You are about making them successful.

By Tom Bengtson
BHCA Managing Director

Leadership Expectations

1. Always follow through on your commitments. Not doing so is the ultimate credibility-buster.
2. Be available and visible in the workplace. Maintain an open-door policy. Leadership is a contact sport.
3. Exercise candor:
   a) Provide honest, appropriate feedback to employees. Sometimes it hurts.
   b) Participate in group discussions. All perspectives are valued.
   c) Challenge decisions/directions when they don't feel right.
4. Maintain a sense of urgency at all levels in the organization. Be available and responsive when impactful issues arise. Run to the fire.
5. Stress process discipline and compliance to procedures. They are developed and published for a reason.
6. To the extent possible, operational and business decisions should be data driven.
7. Take risks to do what you feel is the right thing. Be courageous.
8. Always display a positive attitude. It's infectious and a force multiplier.
9. Recognize employees for their commitment and contribution. There is no better return on your investment.
10. You must be a communicator. Does our team know where you are leading them and why?

Down to Business, *Continued on page 14*

While economic headwinds may slow competitors, they may provide the updraft that allow community banks to soar throughout 2023. The annual Spring Seminar of the Bank Holding Company Association is themed "Time to Soar," and we will provide the information and inspirational sessions to give you the lift you need.

Commoditized products and impersonal service are a recipe for drudgery; banks that offer the individualized attention and thoughtful products that community banks are known for have a distinct competitive advantage. The BHCA Spring Seminar will deliver education and networking designed to provide a bird's eye view of the opportunities and possibilities that await innovative, diligent and entrepreneurial community bankers.

The Spring Seminar, scheduled for Monday and Tuesday, May 1-2, 2023 at the Westin Hotel at the Galleria in Edina, Minn., features panel session leaders who will guide bankers through information-sharing on topics such as Banking as a Service, and intriguing ideas for non-interest income. Brian Love, a banking industry consultant with Travillian, leads the BaaS discussion, while Blake Crow of Eide Bailly introduces the group to bankers who have a different approach to income generation.

Chris Carlson, who regularly works with small/medium business owners and banks, shares what business owners want from their banks. He brings sales and marketing training experience from the highly successful Core Academy (Core-ac.com). Bankers also know him as the host of the Graduate School of Banking-Colorado podcast, "Bolder Banking."

The first day's events conclude with dinner and a very entertaining presentation by Tim Gard, known for his humorous treatment of serious topics such as stress management. After a day of note-taking, learning and networking, prepare to conclude your Monday with a festive meal and a belly laugh.

Day Two features a detailed look at the importance of effective capital allocation. The rate environment does not have to keep you grounded. This session, presented by Gary Svec of Performance Trust, shines a spotlight on the common practices of the most reliably profitable asset allocation teams.

We are also very pleased to welcome attorney Philip K. Smith of the Gerrish Smith Tuck firm of Memphis, Tenn. He will outline the issues you should be considering at your board of directors meetings, including the options regarding charter type. Are you making the most of your charter, and how are other organizations using their charters to compete against you?

Accountants from Wipfli, CLA and RSM will offer break-out sessions in profitability basics (Robert Zondag of Wipfli), how a growing bank should prepare to cross the $1 billion-asset threshold (Joshua Juergenson of CLA), and using data to compete with megabanks and fintechs (Jeff Dunnahoo of RSM).

The Spring Seminar concludes with an insightful survey of the economic landscape by Doug Ramsey, the Chief Investment Officer of The Leuthold Group, a leading financial research firm.

A Look to the Future

The Spring Seminar opens on May 1 with a special "Hats Off to the Future" luncheon where we will honor outstanding mid-career bankers, nominated by bankers across the Upper Midwest. Sponsored by *BankBeat* magazine and BankBeat.biz, we will introduce you to bankers who are making a difference, representing true industry Rising Stars.

Even if you have never been to a BHCA event before, you are urged to consider joining us for this inspiring luncheon. The highlight of the mid-day celebration will be comments from Rachel Evangelisto, the reigning Miss Minnesota, who will draw on her Native American heritage to share insights on culture and diversity.

We are offering a luncheon-only rate that makes it very reasonable to solely attend the luncheon. But, if you like, enjoy the lunch and stay for the entire day. We have a special Monday-only registration rate that includes all of Monday's events. Whether you are a BHCA member or not, you will find exceptional value in the one-day registration option.

The Westin

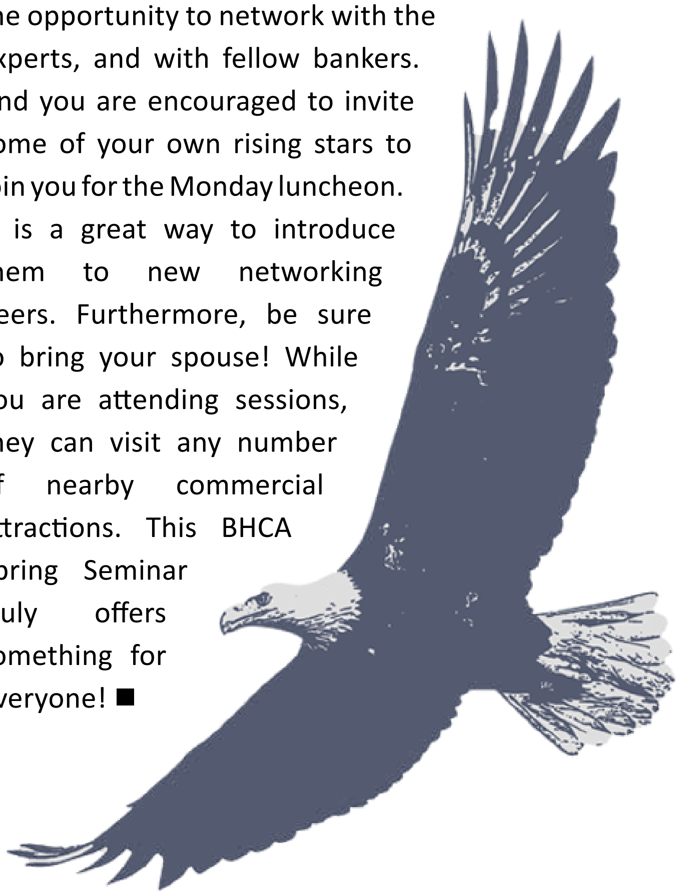
The BHCA Spring Seminar takes place at the Westin Hotel, which is part of the Galleria in Edina, Minnesota. This is a top-flight hotel located in a vibrant part of the Twin Cities. Be sure to use the link to register for your room. Reservations can be made with the BHCA hotel block of rooms through Friday, April 21.

Dinner and a Show

Act fast if you would like to join the Bank Holding Company Association Tuesday evening, May 2, to see the musical "Hamilton" at the Orpheum theater in downtown Minneapolis. We will be gathering across the street from the theater for dinner at the Capital Grille restaurant in a section reserved for the BHCA. Only 32 places are available, so don't delay.

A Great Event for Everyone!

Time to Soar promises to be one of the best BHCA Spring Seminars in memory. Plan to bring along board colleagues and other members of your senior management team. Representatives from many of the leading firms that serve the community banking industry will be in attendance and they are interested in visiting with you. Make the most of the opportunity to network with the experts, and with fellow bankers. And you are encouraged to invite some of your own rising stars to join you for the Monday luncheon. It is a great way to introduce them to new networking peers. Furthermore, be sure to bring your spouse! While you are attending sessions, they can visit any number of nearby commercial attractions. This BHCA Spring Seminar truly offers something for everyone! ■



AGENDA

Monday, May 1

11:30 | **Registration opens, Gather for lunch**

11:50 | **"Hats Off to the Future" luncheon**

12:40 | **Recognition and comments**

1:00 | **Luncheon speaker: Rachel Evangelisto "Celebrating Culture & Diversity"**
The Reigning Miss Minnesota shares a heart-felt message emanating from your Native American heritage.

2:00 | **"What Small Business Owners Want from their Bank" by Chris Carlson**
The President of Core Academy shares insights into the basics of connecting with your small and medium-size business customers.

2:55 | **"Banking as a Service: Who's Using It and What Does it Mean for You?"**
Brian Love of Travillian will be joined by CEO Erik Skovgard, Lincoln Savings Bank, Reinbeck Iowa, and Brian Johnson, CEO, Choice Financial, Fargo, N.D., in this panel discussion.

3:45 | **Break**

4:00 | **"Non-interest Income Success Stories"**
Blake Crow of Eide Bailly will lead a panel discussion made up of bankers from the region.

5:00 | **Reception**

6:00 | **Dinner**

7:00 | **Dinner Speaker: Tim Gard "Serious Levity, Learning from the Level of Laughter"**
Using humor, highly acclaimed speaker Tim Gard teaches people how to be more resilient and resourceful. Get ready to learn and have some fun!

7:45 | **adjourn**

Tuesday, May 2

7:45 | **Buffet Breakfast**

8:30 | **"Seven Habits of Highly Effective Capital Allocators" By Gary Svec, Performance Trust Capital Partners**
Studying the most successful portfolio management teams, Svec identifies the things that work (and those that don't).

9:30 | **"Issues Your Board Needs to be Discussing" By Philip K. Smith, Gerrish, Smith, Tuck, Memphis, Tenn.**
What issues are challenging boards most? Smith shares his experience, including thoughts on ways to make the most of your charter.

10:30 | **Break**

11:00 | **Breakout sessions**

"What to Expect as You Approach $1 Billion in Assets"
By Josh Juergenson, CLA

"Using Data to Compete with the Megabanks and Fintechs"
By Jeff Dunnahoo, RSM US

"Profitability: Back to Basics" By Robert Zondag, Wipfli

11:50 | **Break**

Noon | **Luncheon**

12:45 | **"Surveying the Economic Landscape"**
By Doug Ramsey, The Leuthold Group

1:45 | **Adjourn**

Evening à la carte event:
Dinner and show in downtown Minneapolis.

Dinner at the Capital Grille, before crossing the street to the Orpheum Theater for a production of Hamiton (limited availability).

Dinner and show in downtown Minneapolis

Dinner at the Capital Grille

Orpheum Theater for a production of Hamiton
Limited availability

Meet in the Westin lobby at 4:30 p.m. for group departure.
Scheduled return is around 10:45 p.m.

LOCATION

The Westin Edina Galleria
3201 Galleria, Edina,
Minnesota, USA, 55435

To make your reservations, please contact the hotel directly at 952-567-5000

Book your room today to lock in our special rate! The deadline to book at our special rate is **Friday, April 21.**

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Address_____________________________________

City_________________ **State**__________ **Zip**__________

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Guest Name(s) _________________________________

____

____

Please indicate dietary restrictions here:________________________

FULL SEMINAR:			Number	Amount
BHCA Member		$550	______	______
Non-Member		$800	______	______

OPTIONS:			Number	Amount
Monday Lunch Only	*Members & Non-Members*	$75	______	______
Monday Reception & Dinner	*Members*	$150	______	______
	Non-Members	$250	______	______
Full Day Monday Only	*Members*	$350	______	______
	Non-Members	$450	______	______
Full Day Tuesday Only	*Members*	$250	______	______
	Non-Members	$375	______	______

TUESDAY EVENING, MAY 2

Dinner and Theatre night *(Members only - 32 tickets avilable)* *Dinner at Capital Grille and one ticket to Hamilton at Orpheum Theater*	$300	______	______

TOTAL AMOUNT ENCLOSED: $____________________

Mail Registration to:
Bank Holding Company Association
250 Prairie Center Dr., Ste. 300, Eden Prairie, MN 55344
Or Register online at **www.theBHCA.org**. Need more info? Call **952-835-2248**

The cost of the meals, entertainment and breaks included in the registration fee for this event are estimates at $125 for Monday, and $125 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 April 14 will by subject to $75 processing fee. We regret that no refunds will be given after April 21, 2023; 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 Horace@theBHCA.org.

Hot topics include bond portfolio valuations, talent acquisition and long-range tax planning issues

Changes during the last year in the interest rate environment have affected everything in the community banking industry from the valuation of the bond portfolio to the pace of merger and acquisition transactions. Paul Sirek, a partner with the accounting firm Eide Bailly, joined a recent BHCA board meeting (Feb. 23) to share observations about current trends in community banking. Interest rates seemed to be a driver in many cases.

Unrealized losses in the bond portfolio do not impact a bank's regulatory capital. "Tier 1 leverage ratio, risk-based capital ratio – they are not impacted by those AOCIs unless back in 2015-16 a bank elected on their call reports to include AOCI as a component of their common Tier 1 equity," explained Sirek, who said very few banks made that election.

Regulators, however, in some cases are paying attention to unrealized losses with respect to liquidity. Regulators encourage bankers to understand the extent to which their liquidity position is tied to the condition of their available-for-sale bond portfolio. "We have talked to some of our bank clients who have gotten MRAs related to a large negative AOCI adjustment," Sirek said. "Not really restrictive MRAs, but largely it is to more closely monitor your liquidity model. They might suggest shocking it a little harder... We've seen a couple instances where the MRA required more frequent reporting to the board on liquidity positions."

Banks need to be aware of their wholesale funding sources because some will be affected if GAAP equity drops below zero. Banks that are dependent upon lines of credit that cannot be renewed should their equity show a negative balance need to line up other sources of funding.

Sirek said that at the holding company level, the Federal Reserve includes a negative bond adjustment in the debt-to-equity ratio with respect to small bank holding company restrictions. Holding companies with $3 billion in assets or less are subject to dividend restrictions if the debt-to-equity ratio is more than one-to-one. "If you are an S corporation, that's a pretty big deal if you are trying to get distributions out to shareholders for them to pay taxes," Sirek said.

Sirek said regulators at the Minneapolis Fed have been sympathetic to bankers facing this situation. He said he is unsure how the Fed would approach a situation where a holding company with a debt-to-equity ratio of more than 100 percent made application for an acquisition.

Some bankers have dealt with the falling value of the available-for-sale bond portfolio by reclassifying some of the bonds as held-to-maturity. Sirek warned that approach does not erase the negative unrealized loss number. "It just freezes it on those securities that you moved over to held-to-maturity. It hangs out there as an unrealized loss. It slowly bleeds down as those bonds roll off," Sirek said. "The negative amount stays there, but at least you freeze it from further decline if you think the bond portfolio is going to decline further in value. You at least eliminate volatility."

The pace of merger and acquisition deals has essentially ground to a halt, according to Sirek, because of the depressed value of the bond portfolios at so many institutions. In 2022, he said, there were four deals the entire year in a 13-state Upper Midwest region, compared to 16 in 2021.

Paul Sirek

"There is a lot more interest in the branch than there is in the whole bank," Sirek said, "because when you buy a branch, you are buying the building and you are not buying the bond portfolio. You are assuming the deposits and, hopefully, some of the people and talent."

Increased competition for employees is an issue in banking as it is in many industries, Sirek noted. Among the trends Sirek said he is seeing in response:

- Active referral program for current employees to recruit candidates;
- Stock-based compensation for retention; and
- Other, more creative compensation plans designed for shorter-term retention, such as plans that award phantom stock or bonuses with a vesting period of three-to-five years.

Sirek concluded by focusing on long-range tax planning issues, including the growing gulf between the tax rate paid by shareholders of subchapter S corporations and C corporations. While the top S corp rate is 37 percent, those taxpayers effectively pay 29.6 percent because the Tax Cuts and Jobs Act of 2017 said that only 80 percent of the passthrough income is subject to taxation. That provision will expire at the end of 2025. In addition, at the end of 2025 the top rate for individuals is going to 39.6 percent. This means sub S shareholders in the highest tax bracket will pay a higher rate of taxes on more of their passthrough income. With an additional 3.8 percent net investment income tax that applies to many sub S shareholders, their effective tax rate will be 43.4 percent. This compares with the 21 percent rate applicable to C corp shareholders. While a lot could change between now and the end of 2025, the significant

Continued on page 14

Independence, Predictability, and Tailoring in Bank Supervision

By Michelle W. Bowman

Editors Note: *Federal Reserve Board Governor Michelle W. Bowman addressed the ABA Community Banking Conference in Orlando, Fla., on Feb. 13, 2023. Following is an abridged version of her comments.*

I expect there will be meaningful changes in regulations, guidance, and supervisory expectations over the coming year. While some of these changes will affect only the largest institutions, many will affect community bankers like you and may impact your work to support your local communities.

Specifically, I will discuss three topics that are more interconnected than they may appear: (1) Federal Reserve independence, (2) predictability in applications, and (3) tailoring of regulations and supervision.

Federal Reserve Independence

Most often, the independence of the Federal Reserve is discussed in terms of independence in the setting of monetary policy. While the value of independent decision-making in monetary policy is vital, and research shows that it leads to better policy outcomes in the long run, it is also important to emphasize the value of independence in banking supervision and regulation.

You may have seen Chair Powell's recent speech on this topic, in which he noted that independence in our bank regulatory function helps to ensure that our decisions are driven primarily by the goals of promoting a safe and sound financial system and safeguarding the stability of the U.S. financial system stability. In this context, independence also means that we are not influenced by political considerations in making policy decisions. The Federal Reserve's independence in bank regulation also provides stability and consistency to regulated institutions. I am not suggesting that bank regulation remain static in the face of change. To the contrary, the Federal Reserve's regulatory approach must be capable of addressing and adapting to new activities and new risks but also must be constantly directed towards furthering our statutory objectives.

Of course, this independence in bank regulation must be accompanied by accountability, to both Congress and the American public.

Existing law provides a number of mechanisms to ensure this accountability to Congress. First, members of the Board of Governors are appointed by the President, subject to the advice and consent of the Senate. Second, the Board also regularly communicates with Congress, both through in-person testimony to relevant banking and financial services committees and by providing regular reports on key areas within the Federal Reserve's areas of responsibility, including semiannual reports on banking applications activity, supervision and regulation, cybersecurity and financial system resilience, and financial stability. This regular cadence of testimony and public reporting provides visibility into the inner workings of the Federal Reserve, not just for Congress, but also for the public.

Beyond these measures though, accountability also means having transparent policies and procedures and conducting supervision in a way that is predictable and fair. Transparency builds legitimacy and helps demonstrate that the Fed is executing its responsibilities in a fair way for all regulated institutions. One area I think we are always looking to improve is the publication of clear, appropriate guidance, especially for community banks. I think there are examples where we have done a pretty good job, for instance providing tools to help community banks estimate their losses under the Current Expected Credit Loss, or CECL, accounting standard. We owe this duty of transparency to all regulated institutions. For example, I expect the Board will soon publish the supervision criteria implemented by the Large Institution Supervision Coordinating Committee—the LISCC manual. Banks should have some assurance that they are being held to the same standards as their peers over time. While publication of the manual may be only a modest improvement in transparency, I think it will be an important step.

Transparency helps us not only with accountability, but also with building legitimacy and public trust. To be clear, I do not consider transparency to mean leniency. We hold banks of all sizes to high standards, commensurate with their size and risk, and being transparent does not dilute the rigor of our regulatory standards. Transparency helps ensure that banks are aware of these standards and expectations so that they can work more effectively and efficiently to meet them.

Perhaps most importantly, though, we must implement the laws that Congress has passed as they are written and not stretch that authority to venture into other areas of policy-making.

For example, consider the distinction between (1) making sure institutions are managing all of their material risks and (2) instructing banks to make certain credit allocation decisions, that is, telling banks to make or not make loans to certain industries. The first objective—making sure financial institutions manage their material risks—is one of the central functions of a bank supervisor, and is fundamental to safety and soundness. But it is equally clear that the second objective—influencing a bank to make certain credit allocation decisions—is not the role of a banking regulator. If you look across the regulated banking sectors, you will find that each bank makes different credit decisions, reacting not only to market demand and economic conditions, but also implementing the bank's strategy. And to be clear, I share the widely held view that the appropriate role of the Federal Reserve is not to make credit allocation decisions for banks.

The Fed's role as a banking supervisor is not to replace a bank's management and board of directors in adopting a banking strategy and risk appetite. Instead, it is to apply appropriate, targeted regulation and supervision, in order to be able to assess that when a bank engages in an activity, it does so in compliance with applicable laws and in a safe and sound manner. This can be a difficult balance to strike but it is something I believe we must always bear in mind whenever the Fed uses or proposes using its regulatory or supervisory tools. Banking regulation and supervision should not be the place to implement new policies that are not mandated by Congress.

Predictability in Reviewing Bank Mergers

Recently, there has been significant attention focused on the role of federal bank regulators in reviewing merger applications, with scrutiny of not only the rigor of the review, but also on how the review process impacts the merger applicants. I certainly welcome this discussion and hearing public feedback, to see if the process can be improved.

Congress established the factors that must be considered when the Federal Reserve and other regulators review bank applications. These include the competitive effects of the proposed merger, financial and managerial resources, future prospects of the merged institutions, convenience and needs of the communities to be served, compliance with money laundering laws, and the effect of the transaction on the stability of the financial system. Although the review framework is the same for all applications, the facts of each case can vary widely, from community bank mergers to mergers of much larger institutions that can affect markets across large regions of the country. While this variability necessitates an in-depth review of each transaction on its own merits, these reviews are most effective when the expectations of the regulators are clear in advance and the parties can reasonably anticipate the application review process.

The agencies are required to review the statutory factors, but it is also important that we understand that timing matters in merger transactions. There are significant consequences to firms when applications are not acted on in a timely manner, including increased operational risk, the additional expense associated with running two institutions in parallel over a longer period of time, employee retention issues, and perceived reputational risk. Congress has also recognized the need for prompt action, imposing a variety of time limits for agency action on bank applications. Recently, we have seen an increase in average processing times in the merger review process. I am concerned about delays in the application process and am concerned that the increase in average processing times will become the new normal.

I think it's helpful to consider the source of delays in processing applications and consider whether there are opportunities for improvement. This is another area where increased transparency can help. The legal standards we apply have not changed, and yet the review of applications can be affected by incomplete or inaccurate information or information that does not meet the expectations for an approvable transaction. Filling this information gap with clearer guidance, and making sure applicants understand our expectations could meaningfully improve the process. New supervisory information that comes to light during the examination process can also lead to delays, particularly if new supervisory issues need to be remediated before the application can be approved. In these cases, transparency between the regulator and the applicant helps ensure clear expectations about potential delays.

That being said, improved transparency only goes so far. I think it will come as no surprise to bankers that often, the key difference in processing times is whether the application will be acted on by the Reserve Banks on a delegated basis or will require board action. While an application can come to the board for many reasons, the most common reason is that the board has received a protest on the application from a member of the public. I think it is helpful to consider whether this process could be improved, so that bona fide concerns raised by the public are appropriately considered, while still ensuring timely decision-making.

Finally, to reiterate a point I've made in the past, I continue to believe that the application process should not be used as a substitute for rulemaking. If the rules applicable to a firm or group of firms need to be updated, we should follow the rulemaking process to update those rules.

Tailoring

Finally, I would like to emphasize the role of tailoring in regulation and supervision. Tailoring was a core feature of the response to the 2008 financial crisis and since then has been the subject of a concerted effort to refine and improve the regulatory and supervisory framework based on experience since the framework was implemented. Tailoring has proven to be an effective and efficient way to regulate and supervise banks of all sizes.

Of course, all of you here today are very familiar with risk-based supervision, which is itself a form of tailoring, focusing supervisory attention on areas that pose the greatest risks. But tailoring also helps us adopt meaningful differences in regulatory requirements and supervisory expectations, depending on the size and complexity of the regulated institution, from the largest G-SIBs to the smallest community banks. This tailored approach manifests itself across the spectrum from the stringency of capital requirements, the regulatory reporting obligations, and the frequency of examination, among many others.

Time has demonstrated the virtues of this tailored approach. The U.S. banking system entered the early days of the COVID-19 pandemic with high levels of capital and liquidity, and banks of all sizes supported the economy during the darkest days of the pandemic and have continued to support the economy ever since. This tailored approach should continue to feature prominently in upcoming proposed revisions to the capital framework. While I expect the board will propose new capital requirements for the largest institutions, including the Basel III "endgame" reforms, I do not expect every tier of firms to be subject to the same changes. And my understanding is that there are no plans to propose changes to the community bank capital framework as part of this capital review.

This tailored approach is sensible not only by matching regulation to risk, but it is embedded in the statutory framework. For example, the bipartisan Economic Growth, Regulatory Relief and Consumer Protection Act included several elements designed to tailor regulatory requirements. For the largest firms, this law instructs the board to tailor its "enhanced prudential standards" framework — the strictest standards — to firms based on the risks they pose. This statute also reduced the burden on smaller institutions, including through the community bank leverage ratio, the creation of short-form call reports for smaller community banks and a longer examination cycle for small, well-capitalized banks. In my view, the current community bank capital requirements, including the community bank leverage ratio, are functioning well.

In practice, tailoring requires a framework that both distinguishes firms by size, risk, and complexity, and imposes appropriate regulatory requirements in light of these differences. The largest institutions are classified by a number of factors including size, cross-jurisdictional activity, reliance on short-term wholesale funding, off-balance sheet exposures, and nonbank assets. These factors, and the G-SIB scoring methodology more broadly, help contrast the largest firms that pose the greatest risks with the smaller and less systemic firms. This translates into a regulatory regime where the G-SIBs are subject to the most stringent standards, incorporating enhancements like a G-SIB-specific risk-based capital surcharge and the enhanced supplementary leverage ratio. Even the smallest banks are subject to size and risk considerations in their supervisory expectations, like a longer examination cycle, and straight forward capital and liquidity requirements and expectations.

This very intentional approach accomplishes utility and efficiency, for both regulators and the regulated institutions, that would be otherwise impossible. Tailoring our regulatory approach enables us to strike an appropriate balance for each relevant bank tier, with requirements that address risks, including financial stability risks, while recognizing the costs of over-regulation. ■

President's Observation, *Continued from page 4*

owners. I hope that includes you. If we haven't met, please introduce yourself to me at the next BHCA event. Making connections is one of the biggest benefits of a BHCA membership. And, if you have ideas about things you would like to see addressed at a BHCA event, or if there is a particular speaker you would like to see present at a BHCA seminar, please let me know.

We are fortunate that the BHCA is a regional group, with members from several states. I really like the regional perspective, given that matches the business scope of many community banks. The state lines mean less today than ever, yet our country is so vast that few community banks really operate nationally.

But let me put in a special invitation to my neighbors throughout the state of Wisconsin. If you are reading this and are not a member of the BCHA, I encourage you to join. Contact Tom Bengtson, our managing director, and he can help you learn about the benefits of BHCA membership and actually enroll your organization in membership. Wisconsin has a great tradition of community banking; and holding companies have been a part of the mix for nearly all the state's banks. The BHCA wants to help you make the most of your franchise, and I encourage you to join.

Best wishes, and I look forward to seeing you at the Spring Seminar! ■

Down to Business, *Continued from page 5*

11. Support corporate decisions even though you may not completely agree with them. Need all oars in the water and rowing in the same direction to achieve maximum speed.
12. Remain calm and demonstrate a sense of control when adversity hits.
13. Remain focused on solutions, not problems. You don't need the problem to get any bigger.
14. Be supportive of colleagues throughout the company. Playing a man shore hurts the team's chances.
15. Push the team to exercise data and process curiosity. Always ask, "Is there a way to do it better, faster, more cost effectively?" and "What truly is driving the results?"
16. Don't be afraid to say "I don't know." Feel comfortable demonstrating your vulnerabilities. Be Real.

I think any one of these items alone could be examined in depth. Bill Lentsch himself could certainly go into depth on each one. I don't have the space to do that here, but by sharing these statements, you can fill in any blanks that might make them more relevant to your situation. Whether you are running an airline, a bank, a trade group or a publishing company; whether you are managing a team of 10,000 people, 100 people or 10 people, I think you will find useful wisdom in these statements.

Spring Seminar

We regularly have incredible speakers present at our seminars. We have several excellent speakers scheduled to address the Spring Seminar of the Bank Holding Company Association, May 1-2 at the Westin Hotel at the Galleria in Edina, Minn. I am especially excited about our opening luncheon on May 1, where we will honor mid-career bankers who are Rising Stars in the industry and in their organizations.

If you regularly attend our seminars, I look forward to seeing you again this May. Furthermore, I invite you to consider bringing with you a half-dozen or so Rising Stars in your organization to enjoy the luncheon, and our luncheon speaker, the reigning Miss Minnesota Rachel Evangelisto, who has a compelling message rooted in her Native American heritage. We have a special luncheon-only registration. Your team will have a great luncheon experience, in addition to getting a chance to network with other Rising Stars from around the region. In-person networking is so important in today's world where so much interaction is limited to on-line channels. The opening luncheon is a great way to make the most of our Spring Seminar. I can't wait to see you there! ■

Hot topics include bond portfolio valuations, talent acquisition and long-range tax planning issues
Continued from page 10

difference in tax rates may motivate some sub S shareholders to convert to C corp status, Sirek said.

Sirek also talked about the availability of energy tax credits. Sirek explained that the Inflation Reduction Act of 2022 made more green energy tax credits available. Entities that harvest these credits but do not have sufficient taxable income to utilize the credits are able to transfer (sell) them to a third party. They do not have to realize federal taxable income on the sale. Sirek said entities such as C corp banks could benefit by purchasing these credits. There are no established markets for the credits yet, Sirek said, although guidance is expected to be provided by the IRS and the transferability of the credits is supposed to begin this year. ■

By Tom Bengtson

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

▷ Charles McGinn, Anselmo, Neb., filed to acquire shares of CFSB Holding Co., and thereby acquire shares of Custer Federal State Bank, both of Broken Bow, Neb.

▷ Benjamin Saunders, Sheridan, Wyo., filed to acquire shares of Converse County Capital Corporation, and thereby acquire shares of Converse County Bank, both of Douglas, Wyo.

▷ FSB Financial Services, Inc., Waterloo, Iowa, authorized to acquire shares of Scenic Community Bancshares Corporation and thereby acquire shares of Iowa Falls State Bank, both of Iowa Falls, Iowa. Also, Scenic Community Bancshares Corporation authorized to become a bank holding company by acquiring Iowa Falls State Bank.

▷ First Northern Bank of Wyoming, Buffalo, Wyo., authorized to merge with First State Bank of Newcastle, Wyo.

▷ University Bancorp, Ann Arbor, Mich., elected to become a Financial Holding Company.

▷ HNB Bancorp, Inc., Hannibal, Mo., filed to merge with Northeast Missouri Bancshares, Inc., Louisiana, Mo., and thereby acquire The Mercantile Bank of Louisiana.

▷ Fisher Bancorp, Inc., Fisher, Ill., authorized to merge with Butler Point, Inc., and thereby acquire Catlin Bank, both of Catlin, Ill.

▷ The Ray V. Hewitt By-Pass Trust for the benefit of Julie Stauffacher, Mark Hewitt (both of Mason City, Iowa) and Carrie Nicols (of Iowa City, Iowa) authorized to join the Hewitt Family Control Group, and to acquire shares of Arneson Bancshares, Inc., and thereby acquire shares of Clear Lake Bank & Trust, Clear Lake, Iowa.

▷ Brookfield Bancshares, Inc., Brookfield, Ill., filed to become a bank holding company by acquiring the First National Bank of Brookfield.

▷ FSB Holdings, Inc., Auburn Hills, Mich., filed to become a bank holding company by acquiring Freeland State Bank, Freeland, Mich.

▷ Citizens Bancorp, Inc., Cadott, Wis., authorized to acquire Community Financial Bank, Prentice, Wis.

▷ GBH Inc., Ontario, Canada; VersaBank, Ontario, Canada, and VersaHoldings US Corp., Wilmington, Delaware, a wholly owned subsidiary of VersaBank, filed to acquire all of the common equity of Stearns Bank Holdingford N.A., a national bank with its main office in Holdingford, Minn., from Stearns Financial Services, Inc., and to become bank holding companies.

▷ Bank of Montreal, Canada, and BMO Financial Corp., Wilmington, Del., authorized to acquire BancWest Holding Inc., and thereby acquire Bank of the West, both of San Francisco

▷ MO/ARK Bancshares, Inc., Hollister, Mo., filed to become a bank holding company by acquiring Stone Bancshares, Inc., and thereby acquire Stone Bank, both of Mountain View, Ark.

▷ Change in control notice filed by the James A. Babcock Revocable Trust, Elk River, Minn., and others to acquire 25 percent or more of Metro North Bancshares, Inc., and indirectly acquire shares of the Bank of Elk River, both of Elk River.

▷ Johannes Wilhelmus Antonius Zuurbier, Amsterdam, Netherlands, filed to acquire shares of Steinauer Bancorp, and thereby acquire shares of Bank of Steinauer, both of Steinauer, Neb.

▷ Savanna-Thomson Investment, Inc., Savanna, Ill., authorized to merge with Maximum Bancshares, Inc., and thereby acquire Fidelity Bank, both of West Des Moines, Iowa.

▷ Bradford Bancorp, Inc., Greenville, Ill., authorized to merge with Community Bancshares, Inc., and thereby acquire Community Trust Bank, both of Irvington, Ill.

▷ Maureen Beck, Carroll, Iowa, and Jeffrey Renner, Bellevue, Neb., authorized to join the White Family Control Group, and the Dennis Family Control Group, respectively, to acquire shares of Halbur Bancshares, Inc., and thereby acquire shares of Westside State Bank, Westside, Iowa. In addition, Matthew N. Lujano, Carroll, a member of the White Family Control Group, authorized to acquire additional shares of Halbur Bancshares, Inc., and thereby acquire shares of Westside State Bank.

▷ Elizabeth J.C. Brennan, West Des Moines, Iowa, authorized to become the largest individual shareholder and to acquire shares of Morning Sun Bank Corp., and thereby acquire shares of Bank, Wapello, Iowa.

▷ Southern Missouri Bancorp, Inc., Poplar Bluff, Mo., authorized to merge with Citizens Bancshares Co., and thereby acquire Citizens Bank and Trust Company, both of Kansas City, and for Southern Bank, Poplar Bluff, all in Missouri, to merge with Citizens Bank and Trust Company.

▷ Citizens Bancorp, Inc., Cadott, Wis., filed to acquire Community Financial Bank, Prentice, Wis

Wisconsin banker fills BHCA board vacancy

Teresa Rosengarten, President and Chief Operating Officer of Unity Bank, Augusta, Wis., has been elected to the BHCA Board of Directors. Unity Bank is a subsidiary of Kimberly Leasing Corporation, a long-time BHCA member, based in Augusta, which is located about 20 miles from Eau Claire in the Western portion of the state.

Rosengarten is filling the board seat originally held by Ella Meyerson of Cattail Bancshares, Inc., in Atwater, Minn. Elected to the board at the 2022 BHCA annual meeting, Meyerson recently resigned her seat on the BHCA board. Rosengarten's term runs through December of 2025.

Rosengarten has a full career in banking, having worked at Unity Bank since 2016. Prior to that, she held senior executive positions at Baylake Bank in Green Bay, at Associated Bank, and at First Horizon National Corporation. She is a graduate of the ABA Stonier Graduate School of Banking, with degrees from the University of St. Thomas in St. Paul, Minn., and from the University of Minnesota in the Twin Cities. ■