Bank Owner

theBHCA.org — Winter 2023

Bank Holding Company Association Magazine

M&A Success Strategies

Fall Seminar Coverage

Investment Banker: M&A to recover in 2024

How to harness the power of AI

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Bank Owner

Winter 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 ext. 101 or email us at Tom@thebhca.org.

ON THE COVER:
Scenes from the
2023 Fall Seminar

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BHCA
BANK HOLDING COMPANY ASSOCIATION

www.theBHCA.org

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Reflecting on 2023, we have a lot to be thankful for…

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

I was taught at an early age to count my blessings and it's a practice I continue to this day. As we have just experienced the Thanksgiving holiday, I thought my last BHCA column should be an opportunity to express my gratitude.

First of all, I want to thank the membership of the Bank Holding Company Association. The BHCA brings together a very unique group of people from across the region. During the last year in particular, I have been privileged to meet so many of you, and having that opportunity to form sincere friendships is something I am grateful for.

BHCA, of course, has two kinds of members: the bankers and the associate members. On behalf of myself and my fellow bankers, I am grateful for our associate members. In addition to your friendship, I appreciate the knowledge you share with the organization on a regular basis, either as presenters at the seminars, or simply as someone sharing a story or news during a reception. The banks in the BHCA really benefit from such close proximity to the companies which support the association through their associate membership.

Second, I want to specifically acknowledge Tom Bengtson and his entire team, and the board of directors of the Bank Holding Company Association. The association is run by a board of 10 bankers. Each board member serves at least three years, numerous serve six years, and some even put in as many as seven years. We meet four times per year and the conversations around the board room table over association issues is always excellent. People have different ideas and opinions, but that's what makes the conversations so interesting and the meetings so stimulating. I am grateful for the way that everyone works together, defers to others as appropriate, and considers all sides of any issue we might be considering.

I am particularly grateful to Tim Siegle of Ameri Financial Group, Lino Lakes, Minn., and Rick Wall, Highland Bancshares, Minnetonka, Minn., who are concluding their board service at the end of 2023. Thank you for your service and I will miss working with you. And I want to thank Morgan Farmer, Golden Oak Bancshares, Holmen, Wis.; Tim Viere, Entrepreneurs Bancshares, Bloomington, Minn., and McKenzie Hopkins, Hopkins Financial Corp., Mitchell, S.D., who have graciously volunteered to begin board service starting Jan. 1, 2024.

Third, I am appreciative to the BHCA board members who have been through the officer chairs. It has been such a privilege for me to serve as your president this past year; the experience helps me to appreciate the forty-some people who have served as BHCA president before me, and those who will follow in the years to come. I am excited to pass the baton to John Healey, who is set to become our president on January 1.

Fourth, I am grateful to my colleagues at Bell Bank and to the bank's ownership, its leadership and to my managers, who affirm my interest in serving the banking industry through the BHCA.

And, lastly, I appreciate everyone out there who makes up the broader banking industry. The industry plays a vital role in our communities, regions and entire country. Working with customers, you make things happen, realize dreams, and turn ideas into reality. I cannot think of a more rewarding industry to be a part of. Banking isn't just about dollars and cents, but much more, it is about people, families and communities. Thank you for the work you do, and thank you for letting me be a part of it through my role at the bank and in the industry.

President's Observations, *Continued on page 7*

Industry, economic challenges summarized by Fall Seminar presenters

By Tom Bengtson
BHCA Managing Director

I have a little clearer picture of the industry environment, thanks to the insights offered by our presenters at the Fall Seminar in early October. We are in a fragile situation as a result of recent events – relatively rapid increase in interest rates, a small but expensive group of bank failures, inflation that has put housing and autos out of reach for many, and crazy levels of government spending. A delicate geopolitical situation, evolutionary shifts in the labor market, a desire for a "soft landing" that may be on a collision course with efforts to fight inflation, and a presidential election next year all add to the volatility of the current conditions.

I thought Todd Buchholz, the former White House economic policy director who spoke at our closing luncheon succinctly explained our economic situation when he reminded us of a $900 billion spending package passed under President Trump in December of 2020, followed by a $1.9 trillion spending package shepherded by President Biden in March 2021 added about $3 trillion to federal debt that was already running at around $30 trillion. "That was new spending representing 10 percent of our debt, and surprise, we had inflation at about 10 percent immediately afterward," Buchholz said.

Buchholz called the pandemic era the "great cessation," meaning that the economy didn't slow but, in fact, stopped. The appropriate course of action in response to a cessation is quite different from the appropriate course following a recession. Buchholz said policy makers failed to make the distinction and treated the situation like it was a recession.

Curtis Carpenter of the Hovde Group also referenced the federal deficit as he described the economic landscape affecting bank values. At $32.3 trillion, he said the U.S. debt-to-GDP ratio is currently 120 percent, which is higher than it was in World War II. Carpenter noted the impact of rising interest rates on the cost of servicing the debt. The average interest rate on debt held by the public is currently 2.13 percent, resulting in annual interest expense of about $517 billion. Rate increases, obviously, would drive that expense higher.The Congressional Budget Office predicts the federal debt to be around $52 trillion ten years from now.

With spending so out of balance with tax revenue, Carpenter said repeatedly during his presentation that "we are in the lowest tax environment for the rest of our lifetimes." That is a meaningful "good news/bad news" declaration!

Carpenter noted that the number of merger and acquisition transactions in the banking world is way down, with 79 deals completed so far, setting a pace for 107 deals by year's end. That compares to 165 deals last year. M&A isn't happening as bankers deal with liquidity challenges and a rising cost of funding which is squeezing earnings. Also, bankers have limited options for dealing with bonds paying below-market rates for months or years to come.

Deposits are flowing out of banks, according to FDIC statistics, and Carpenter shared information showing the problem is greater at smaller banks. Year to date deposit outflows have reduced deposit balances at small commercial banks, he said, by 6.29 percent compared to 2.08 percent at large commercial banks.

Liquidity has been front and center of industry scrutiny since Silicon Valley Bank, Signature Bank and First Republic were all taken over by regulators earlier this year. The Federal Reserve created a Term Funding Program to give bankers access to additional liquidity. Importantly, the program let's bankers pledge securities at par value to collateralize any borrowings through the program. Carpenter said the names of borrowers have not been released (but will be in March 2025), although we know that collectively loan balances in the program total $107.6 billion.

While there are plenty of red flags waving in our economy, warning of additional challenges, I think it is important to remember some of the more positive conditions: asset quality is good, technology makes it possible to market to more customers more efficiently than ever, investment capital remains relatively accessible, and it looks like interest rates – at least for now – have peaked. None of the presenters said they expect the country to dip into recession in the foreseeable future.

The members of the BHCA Board of Directors and I are always considering industry conditions and we try to put together the most informative educational seminars for bank owners and senior managers. We try to stay up on the very latest information, and even look out into the future in anticipation of what most likely is coming our way. Planning already is underway for our two seminars in 2024, and we are in discussion about other ways to serve the industry, as well.

As we near the close of 2023, I want to thank you for your membership and support of the BHCA. The industry is evolving. I feel like we are at a real inflection point in the banking arena where industry leaders are going to be asked to make significant commitments to their institutions, to their shareholders and to their communities in order to remain a vibrant part of the

Down to Business, *Continued on page 12*

BHCA set to welcome new board members as two conclude service

The membership of the Bank Holding Company Association elected three bankers to serve on the BHCA board of directors. The elections took place Oct. 3 during the association's annual meeting conducted in conjunction with the Fall Seminar at the Westin Galleria Hotel in Edina, Minn.

Morgan Farmer, Golden Oak Bancshares, Inc., Holmen, Wis., and McKinzie Hopkins, Hopkins Financial, Mitchell, S.D., were elected to three-year terms, which will begin on January 1, 2024. Tim Viere, Entrepreneurs Bancshares, Inc., Bloomington, Minn., was elected to complete a term which began Jan. 1, 2023, but opened up when Teresa Rosengarten of Kimberly Leasing Corporation, Augusta, Wis., resigned earlier this year. Viere's election is effective immediately and runs through Dec. 31, 2025.

Farmer is executive vice president of Park Bank in Holmen, and a board member at Golden Oak Bancshares. Park Bank is a family-owned community bank specializing in residential mortgage and small business financing. Farmer began working in the bank at the age of 13, and continued there part-time during summers through his graduation from the University of Notre Dame in 2000. Upon graduation, he became a correspondent banker for U.S. Bank in Minneapolis. Farmer returned to Park Bank in 2010, being named EVP in 2015.

Farmer's father, Douglas Farmer, was BHCA president in 2013; Morgan Farmer is the first BHCA board member to have a father who has served in BHCA leadership.

McKinzie Hopkins is vice president in the Minneapolis market for CorTrust Bank. She is a fourth generation Hopkins to work for the family-owned community bank. A former employee of Deloitte Tax, LLP, she is an attorney and tax manager.

Hopkins received a Juris Doctorate degree from the University of St. Thomas School of Law in Minneapolis in 2012. As a tax manager, she worked with public and non-public clients in a variety of industries including utilities, manufacturing, transportation, and financial services.

Viere is a co-founder, CEO and Director of EntreBank, which opened in 2022. Viere was involved with the other co-founders in all aspects of the bank's formation, including the business plan, board and management team structure and recruitment, the initial capital raise, and regulatory approval. He has a Bachelor of Science degree from the University of Minnesota in Economics. Viere has been in banking for 39 years and has a passion for helping customers be successful and high performance team building, and thoroughly enjoys the success of the overall team.

"The Bank Holding Company Association is very fortunate to have these bankers join its board of directors," commented Tom Bengtson, BHCA Managing Director. "Board service is an important contribution to the industry; these bankers have the experience, drive and creativity to make a positive impact on the BHCA in the coming years."

At the end of 2023, Rick Wall, Highland Bancshares, Inc., Minnetonka, Minn., and Tim Siegle, Ameri Financial Group, Lino Lakes, Minn., will conclude their BHCA board service. Both have served on the board for seven years. Wall was BHCA president in 2019 and Siegle was president in 2022.

"We are grateful to both Rick and Tim for their incredible service to the BHCA over the past several years," Bengtson said. "Their leadership, ideas and enthusiasm will have a positive lasting effect on the association." ■

New to BHCA

The BHCA is pleased to welcome a new Associate Member:

Advance Business Solutions
Paola, Kan.
Sandy Moll, President, CEO

ABS helps businesses improve efficiencies and bottom lines, but our main focus is helping people. We serve in many ways, from providing businesses with services to mentoring others to run their own businesses. While we serve all types of businesses, we focus on financial service providers.

The Bank Holding Company Association is pleased to welcome two new members:

Entrepreneurs Bancshares, Inc.
EntreBank, Bloomington, Minn.
Erik Knutson, Chief Financial Officer
Melissa Johnson, Chief Credit Officer
Todd Hovland, President
Dan Boeckermann, Co-Founder
Tim Biere, Chief Executive Officer

Luminate Capital Corp.
Luminate Bank, Minnetonka, Minn.
Taryn Rueter, Co-Chairman
Thomas Payne. Co-Chairman
Eric Lovins, Director
Josh Krsnak, Director
Brian Buchholz, Director
Marc Campbell. Chief Executive Officer/Director

Economist: Major recession unlikely despite troubling signs

Economist Todd Buchholz does not expect a major recession to soon strike but is worried that the current workforce shortage and deficit spending are hampering long-term growth prospects.

Buchholz, director of economic policy under President George H.W. Bush, described his economic outlook before a luncheon crowd during the final session of the Bank Holding Company Association's Fall Seminar on Oct. 3 at the Westin Edina Galleria.

Addressing a large ballroom of BHCA members and guests, Buchholz predicted annual spending will fall during the Christmas season as inflation remains a pressing issue and gas prices are high throughout the country. Inflation in September was unchanged from the previous month at 3.7 percent, and remains lower than its peak of nearly 9 percent in the summer of 2022.

Buchholz attributed the Federal Open Market Committee's policy tightness to Fed Chair Jerome Powell's desire to avoid the fate of Arthur Burns, who served in the position from 1970-78 and was perceived as failing to follow through on his initial tightening of credit to control rising prices.

The FOMC kept its benchmark interest rate at 5.25 percent to 5.50 percent in September, its second pause in three months. The pause was seen as a sign that the Fed was moderating its fight against inflation amid easing price pressures. Bankers expect the FOMC to raise interest rates 25 basis points this year and don't anticipate rates to be lowered before the second half of next year, according to a recent survey of bank executives.

During his 75-minute address, Buchholz placed much of the blame for inflation on the Federal government's $3 trillion of quantitative easing during the pandemic. To him, the Federal government misdiagnosed the economy as being in a recession instead of understanding that the changes reflected shifting spending patterns as more people stayed home amid widespread business shutdowns.

An award-winning economics professor at Harvard University, Buchholz said the pessimism Republicans and Democrats share for free trade has also caused economic challenges and provoked retaliation from historical allies such as Canada.

Buchholz: Recession unlikely in near term.

In 2020, Canada announced $2.7 billion of retaliatory tariffs on United States-made goods in response to President Trump's decision to reimpose 10 percent aluminum duties on the country.

Effectively striking a humorous yet serious tone, Buchholz said close scrutiny is needed in trading with historical foes such as China, Russia and North Korea. However, he called on the United States to be a more welcoming trading partner with its allies.

"It's really important to have scrutiny, strict scrutiny, when you are talking about trade with China, with North Korea, with Russia, but you've gotta have some sense and be able to distinguish North Korea from Saskatchewan," he said.

Buchholz projected that oil prices, which at the time had reached $89 per barrel, will fall to between $60 and $80 per barrel a year from now. He criticized the Biden administration for cutting the production of domestic oil while authorizing Chevron to increase production in Venezuela and allowing exports of Venezuelan oil to continue. ■

President's Obervations, *Continued from page 4*

As a practical matter, this is the time of year that the BHCA encourages members to renew their membership for the coming year. The BHCA annual membership runs from January 1 through December 31. You should have already received your notice for 2024 membership dues. We try to keep the dues modest, and the board seriously considers its obligation to deliver the best value possible for those dues dollars. My sincere hope is that all of our members will renew for the coming year, and that many more will actually join the association. If you are reading this and are not a member of the BHCA, please consider joining. Contact Managing Director Tom Bengtson and he will provide the details you need to become a member.

As the year comes to a close and my year as BHCA president concludes, let me thank you again for the privilege of serving you. I wish you all a blessed Holiday season and I look forward to seeing you soon in 2024! ■

Former Lake Area Bank CEO recounts turbulent M&A process

Marc Campbell, former Lake Area Bank CEO, has no illusions of the challenges the bank faced in trying to sell to Eau Claire, Wis.-based Royal Credit Union.

Campbell outlined the months-long process that led Lake Area Bank to sell three branches to Royal while eventually selling the rest to Lino Lakes, Minn.-based First Resource Bank. He used his experience to inform fellow bank owners how they should handle M&A setbacks. Campbell shared his experience during a panel discussion at the BHCA Fall Seminar.

Lake Area Bank ownership group The Claire Erickson Family broached the idea of selling its two charters in February 2020. The idea, put on hold for more than a year during the covid-19 pandemic, was reintroduced in spring 2021. The group's other charter, Waseca, Minn.-based Roundbank, was sold in 2021 to Redwood Falls, Minn.-based Minnwest Bank.

The Lake Area Bank deal was more complicated. In August 2021, Royal Credit Union entered into a definitive agreement to acquire the Lindstrom-based bank. Three months later, Minnesota Department of Commerce Commissioner Max Zappia penned a letter to the FDIC objecting to the deal because state law did not allow the sale of Minnesota-chartered banks to credit unions.

In December 2021, the FDIC refused to grant approval for the merger until the Department of Commerce dropped its objection. After the deal was rejected, Lake Area had to pull some of its employees from Royal to run the bank. First Resource had not been identified yet as a buyer, so Lake Area had a skeleton crew run the bank until the First Resource Bank deal was finalized.

In August 2022, Royal acquired Lake Area Bank's mortgage division and three of five Twin Cities-area branches. Lake Area later sold its charter and two other locations to First Resource Bank.

Campbell, who became CEO of Minnetonka, Minn.-based Luminate Bank in December 2022, said sincere communication and financial incentives were crucial during the M&A process to keep employees on board and prevent the bank's culture from deteriorating. Lake Area Bank executives reviewed and discussed the bank's basic incentive program with employees. Shareholders, some of whom had been with the bank since the 1980s, offered generous stay bonuses.


Panel discussed M&A deal details

A community banker with more than 30 years of experience, Campbell said the deals were also complicated as they involved two charters. The ownership group slowly brought on the C-suite while keeping the group as small as possible to prevent the news from leaking. He advised bank owners not to take it personally if employees' sense of loyalty shifts once they learn of a pending deal.

"Have a plan for how you are going to present in lockstep how that hiring process is going to look to the buyer group," he added.

Following Campbell's presentation, the discussion turned toward real estate issues which can complicate an acquisition. Winthrop & Weinstine Real Estate Counsel Trina Sjoberg advised potential sellers to order a title insurance commitment and finalize M&A plans with their real estate company. She recommended banks undertake a real estate survey and environmental assessment to identify and eliminate unknown issues.

Annandale, Minn.-based Lake Central Bank President and CEO Bryan Bruns said such work was especially important during his bank's recent acquisition of Benson, Minn.-based State Bank of Danvers. During the deal's due diligence process, Lake Central learned that the bank lacked legally valid parking lot and utility line easements. The property's easement agreement was later expanded to include the parking lot and utilities. ■

Investment Banker: M&A market to recover in 2024

Bank M&As will quickly rebound next year after remaining muted throughout 2023, said Curtis Carpenter, senior managing director of investment banking at Chicago-based Hovde Group.

The first speaker during the BHCA's Fall Seminar, Carpenter expects the number of deals to increase to 200-250 in 2024 from slightly more than 100 this year. He attributes the current lack of deals to a backlog of sellers avoiding M&A due to high interest rates and the string of bank failures earlier this year.

Much of Carpenter's nearly hourlong address highlighted favorable M&A conditions. At least 200 banks need to find a buyer because of management or ownership succession challenges, he noted. He sees the Midwest as especially prime for deals as states in this region continue to hold a disproportionate share of bank charters. Acquirers are expected to continue trying


Carpenter

M&A to recover, *Continued on page 10*

Presenter describes how banks can harness the power of AI

Bankers should think of current Artificial Intelligence as a "digital intern," said Katie Quilligan of BankTech Ventures. AI can perform basic tasks and remove a lot of the grunt-work to increase a team's bandwidth for more complex projects. But it requires close supervision and regular feedback and tweaking to make it a better tool. "You should always be supervising it, and you're always going to be responsible for whatever it puts out," Quilligan said.

AI isn't going to take away jobs; it's going to take away work that no one is interested in doing anymore, she said.

Quilligan cited marketing and intelligent automation as two current use cases for AI. Some banks are using it to generate first drafts of marketing copy. After analyzing data, AI can create personalized marketing campaigns and push it out through email or the bank's app. It can identify customers who might be on the verge of pulling their accounts or becoming delinquent. It can handle rules-based tasks within business processes such as data entry, data extraction and form filling, and the next generation of AI can even handle unstructured data or more complex outputs.

Criminals are already using AI in their attempts to breach banks' digital protections, so banks will also need to use it to fight them. Since AI is better at pattern recognition, the technology can process huge amounts of data much faster than humans can.

Katie Quilligan, BankTech Ventures, said AI will forever change banking.

There are several areas of caution when using AI, Quilligan said. There can be data quality or privacy concerns. If bankers want to use their own data to train AI, they need to have specific data use policies, especially for cross-departmental uses. "Make sure that you're actually allowed to collect this data or that you're removing anything personally identifiable before it's fed into a model," she said.

If algorithms are trained on historical data, they could perpetuate bias and discrimination. "AI systems are really only as good as the information that you're giving them," Qulligan said.

Regulators have been very insistent that bankers understand both the data they're working with as well as the model that's processing the data. "The more that you're able to understand your tech and what's going on, the better you're going to be able to help them understand and help them get comfortable," Qulligan said.

She cited the case of a bank which worked with a vendor that had "AI" in its name. The regulators immediately gave extra scrutiny to that relationship. Fortunately, the bank was able to demonstrate that the data being used by the vendor matched its customer base. The product was used for predictions with a human kept in the loop; the AI was not the final decision-maker, which reassured the regulators, Quilligan said. Chatbots are another area that's received additional regulatory attention.

Finally, customer acceptance and trust could present another barrier to AI adoption, underscoring the need for bankers to understand AI before they begin using it.

If bankers are interested in playing around with AI and familiarizing themselves with how it works, Quilligan suggested experimenting with Microsoft's gated AI system, especially if IT personnel have security concerns.

"Talk to your employees, talk to your board and then decide what you're comfortable with," Qulligan said. Bankers should start by crafting AI policies that outline privacy, compliance and data usage concerns before they jump into deploying AI tech inside the bank.

"It'll have its benefits and its challenges, but over time AI will forever change the banking industry," she said. ■

Definitions

Artificial intelligence: Machines that mimic human intelligence and human cognitive behavior; it "learns" from data

Algorithm: The rules or framework for AI

Generative AI: AI that is able to create text or images

Machine learning: A technique to achieve AI. It takes large amounts of information and uses it to find patterns, make classifications, or find predictions without explicit programming

Fintech-bank deals still possible despite increased scrutiny

Fintechs and investor groups are becoming more attractive M&A partners for community banks as the number of charters continues to shrink and economic concerns limit traditional bank M&A.

Though regulatory scrutiny is growing over such deals, the option is still available for banks that sufficiently prepare, said Joseph Ceithaml, capital markets and M&A leader for the Financial Institutions Group at Chicago-based law firm Barack Ferrazzano.

Ceithaml said banks that sell to a nontraditional group are actually making a move that increases the odds of that charter enduring. Fintechs often want the bank to upgrade digital offerings to better compete with larger banks, which regulators prefer to an acquirer "charter stripping" or enacting massive job cuts.

Regulators desire an on-the-ground management team and want the buyer to either offer better digital services or inject more capital, Ceithaml noted. He sees investor groups facing challenges in entering a market unless they are a *de novo*.

Ceithaml's 50-minute presentation came as the number of potential bank acquirers has fallen to under 5,000 from 18,000 in 1985. The number of charters is likely to continue to drop as banks look to sell due to a lack of capital or increasing regulatory pressure. He sees other bank ownership groups as wanting to unload their bank before a potential recession, liquidate their existing investments for cash or swap an illiquid bank investment for a stake in a public company.

Ceithaml, who has more than 15 years of experience advising banks on corporate, securities and regulatory matters, acknowledged the challenges in selling to a non-traditional buyer. Regulators remain cautious about the potential risks that fintechs can pose in the banking industry. Speaking earlier this year about the impact fintechs have had on bank competition, Federal Reserve Gov. Michelle Bowman said bank merger guideline reforms must factor in the modern competitive threats community banks face from credit unions, fintechs and larger banks.

The Federal Reserve is pushing banks looking to sell to a fintech company to file confidential applications to slow the regulatory process beyond the 90-day formal review limit, Ceithaml said. Buyers that have no plan to change the business plan of the selling bank are much more likely to secure approval, he noted.

Ceithaml said regulatory approval is taking longer.

Despite regulatory pushback, fintechs continue to acquire banks. Early this year, Houston-based LevelField Financial announced its pending acquisition of Illinois-based Burling Bank. LevelField was expected to be the first full-service, FDIC-insured bank to offer both traditional banking and digital services.

Shortly after, San Francisco-based fintech Metallicus, Inc., announced its pending acquisition of Illinois-based State Bank of Nauvoo. Metallicus, which develops products on the blockchain, formed FBBT Holdings, Inc., which organizers said would expand banking and financial services to underserved customers in emerging tech industries.

Ceithaml, who has helped complete more than 100 merger and capital markets transactions, is an outside corporate counsel for more than 25 banks. ■

M&A to recover, *Continued from page 8*

to grow through M&A to effectively scale and find efficiencies, especially during the high interest rate environment.

Carpenter still sees the current market as buyer-friendly for two reasons. He expects buyers will earn a healthy return once a deal is repriced. Also, there is more than enough idle investor capital to acquire another bank's stock at a bargain price while receiving a larger return once the market for bank stocks recovers.

Carpenter, who has represented buyers and sellers in approximately 100 mergers, said banks can make themselves attractive for M&A by being headquartered in a market with organic loan demand and a history of growth. He said they can also prove attractive by having strong core profitability from NIM and fee income; forming low-cost depository relationships; adopting synergies with the potential buyer; and being willing to assume stock as consideration.

A former bank CFO, Carpenter advised banks looking to acquire another financial institution to focus on percentage ownership rather than nominal price; evaluate the economic benefits for shareholders of both organizations; adopt a collaborative approach to pricing; and acknowledge the strategic benefits to the combined company. ■

Communication, planning crucial for capital raises

Two Illinois bankers stressed the importance of clearly communicating with shareholders and outlined other steps necessary for a successful capital raise. The two spoke Oct. 2 during the Bank Holding Company Association's Fall Seminar in Edina, Minn.

The Q&A session included Dean Heinzmann, president of the $670 million, Peoria, Ill.-based Fortress Bank; and Rick Parks, CEO and president of Waterloo, Ill.-based First Waterloo Bancshares. Oak Ridge Financial Partners Craig Mueller and David Stieber moderated the discussion.

First Waterloo Bancshares raises capital to pay off debt and prepare for potential acquisitions. Parks writes letters to shareholders outlining the bank's financial performance.

Fortress Bank leaders evaluate whether the bank will need funding in the next two years before deciding whether to raise capital, said Heinzmann, executive vice president and director of the holding company First State Bancorporation. The bank has attracted potential investors who are former employees or were already personally connected with its leadership team. Reaching out to those with personal connections to the bank has allowed shareholders to feel like they are investing in people whom they already know while becoming potential referral sources for customers and future shareholders.

Heinzmann and Parks also described the successful capital raises their banks have undertaken during the last decade.

Parks, hired by First National Bank of Waterloo, Ill., in January 2020, was named president and CEO in June 2020. First Waterloo Bancshares raised $6 million in a 2013 subordinated notes offering, and $6.3 million preferred equity offering three years later to pay off its acquisition of Stewardsville, Ill.-based Prairie National Bank and reset its bank stock line. The company raised $8.5 million in common equity this year to fund half of the purchase consideration for its acquisition of Saint Libory, Ill.-based Village Bancshares. The deal nearly doubled the company's asset size to $960 million from $490 million.

Illinois bankers Rick Parks (left), First Waterloo Bancshares, and Dean Heinzmann, Fortress Bank.

Fortress Bank undertook a $6 million subordinated notes offering in 2013 to support its growth. Three years later, the bank raised additional capital and issued $6.5 million in a preferred equity offering. Fortress returned to the market in 2020 with a $15 million subordinated debt offering, which eliminated the bank's senior debt. In September, the bank finalized a $3 million common equity raise and $4 million subordinated notes offering. ■

Changing purchase agreements require caution, diligence

Buyer and seller expectations vary due to regulatory changes and technological changes, according to two Ballard Spahr M&A experts.

Speaking Oct. 2 during the BHCA Fall Seminar at the Westin Edina Galleria, Partner Scott Coleman assumed the role of a buyer while Business and Transactions Associate Sarah Dannecker represented the seller.

Buyers and sellers are again looking for liquidity amid an increase in loan demand and as they look for opportunities to source deposits. Coleman cautioned bankers that federal regulators are closely scrutinizing 'rent-a-charter' applications, in which non-regulated companies can offer financial services without a banking license.

A Minneapolis-based lawyer who has represented banks and bank holding companies for more than 25 years, Coleman advised bankers to understand each part of a fintech transaction and diligently monitor consumer complaints to comply with regulatory scrutiny.

Coleman

Dannecker

As M&A agreements close, buyers are looking for more control over seller decisions that could have negative long-term consequences. Coleman said buyers want sellers with early termination fees in their core contracts or ATM contracts to either absorb the expense or offer a lower purchase price. An experienced corporate transactions adviser, Dannecker responded that the seller could argue that the buyer should pay termination costs as the seller is delivering a working system. She noted that the seller is still likely to pay termination expenses. ■

Details crucial in M&A deals

Careful planning is crucial in a merger or acquisition transaction, said Eide Bailly Accountants Aric Radmacher and Paul Sirek. Tax consequences related to such deals can be more expensive than necessary if appropriate planning is neglected.

Radmacher and Sirek, who were the first speakers on the second day of presentations at the BHCA Fall Seminar, seamlessly intertwined their advice during a 50-minute presentation.

Radmacher said banks' long-term objectives must align with shareholders before they embark on a deal. Potential considerations include whether shareholders have a minimum liquidity need; if they plan to sell within the next 25 years; and whether the bank remains under family ownership.

Sirek, who is based in Minneapolis, called on banks to thoroughly evaluate seemingly mundane matters such as deferred compensation in the M&A structuring and planning process to prevent unintended consequences.

Sales proceeds must be distributed in the proper order to avoid tax losses. For example, Sirek noted that a subchapter S corporation which erroneously reported that a shareholder distribution was pursuant to a plan of liquidation could cause the shareholder group to be taxed on substantial gains.

Radmacher

Sirek

Radmacher, who focuses on financial institutions and mid-sized private companies, advised banks to expect the Tax Cuts and Jobs Act to not be extended beyond its current expiration date at the end of 2025 due to partisan gridlock. Once the law expires, Radmacher expects S and C corporations will face tax increases, although the full impact could take a couple of years to fully understand and prepare for.

Sirek, who provides management consulting, tax planning and tax compliance services, said bankers should take advantage of the high total estate tax exemption under the current Trump-era law. Passed in 2017, the law increased the total estate tax exemption for married joint filers to $13 million and $6.3 million for single filers. ■

RSM unveils community bank data management platform

RSM Financial Institutions Practice Co-Leader Aaron Donaldson unveiled a data platform intended to help banks compete with larger banks.

Donaldson presented an overview of the program on the morning of Oct. 3 during a 45-minute breakout session at the BHCA Fall Seminar in Edina, Minn. The platform includes filters which allow banks to identify high-performing branches, top depositors and borrowers, and view loan types by balance or individual loan officer performance. Users also can access five to 10 advisory hours a month and view peer-related research.

Donaldson said the platform utilizes RSM's internal data warehouse to analyze peer results, learn of customer, product and channel trends, and model scenarios. The product utilizes RSM's data warehouse to provide real-time information and compiles financial reporting based on standard system reports and general ledger extracts. Customizable alerts list charge-offs as a percentage of loans and capital as a percentage of total assets.

Donaldson

Donaldson said community banks have been disadvantaged due to customer data previously being siloed across systems or contextually unavailable. Larger banks have generally relied on such platforms to drive realtime decision-making and improve performance. Some community banks spend six-figure sums on platforms without knowing the actual value of the service, Donaldson added. ■

Down to Business, *Continued from page 5*

economy. The credit challenges, as always, will be significant, on top of the service delivery challenges that undoubtedly will require bankers to become comfortable with a whole new generation of technology. And, of course, the customer base and employee pool won't stay the same. As people's attitudes change, so will those of the folks closest to what we know as the community banking ecosystem.

I hope you will stay with the BHCA for the ride. We are committed to helping you thrive as things change in the coming months, years and decades. ■












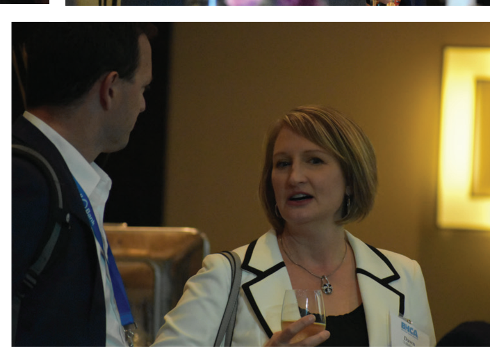

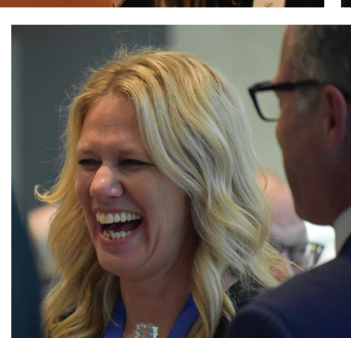


Holding Company Transaction Report

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

▷ First Western Bank and Trust, Minot, N.D., authorized to merge with State Bank of Lismore, Minn., and thereby establish a branch at the main office of SBL.

▷ Notice filed by the Orville A. Rehder 2nd Revocable Living Trust and others to acquire shares of First State Associates, Inc., Hawarden, Iowa, and thereby acquire shares of Rivers Edge Bank, Marion, S.D.

▷ Treynor Bancshares, Inc., Treynor, Iowa, filed to acquire shares of TS Contrarian Bancshares, Inc., Treynor, and thereby acquire shares of Bank of Tioga, N.D., and First National Bank and Trust Company, Clinton, Ill. In addition, the Joshua Guttau Generational Irrevocable Trust and the Heidi A. Guttau Generational Irrevocable Trust intend to apply to the Federal Reserve board to each acquire 10 percent or more of Treynor Bancshares and thereby acquire shares of TS Bank, Treynor. TS Contrarian Bancshares, Inc. will be merged into Treynor Bancshares, Inc., with Treynor Bancshares, Inc., being the survivor, and thereby acquire Bank of Tioga and First National Bank and Trust Company, Clinton.

▷ Bern Bancshares, Inc., Bern, Kan., filed to acquire up to 6.83 percent of UBT Bancshares, Inc., Marysville, Kan., and thereby acquire United Bank & Trust, Marysville.

▷ The Bruce L. Trimble Irrevocable Trust filed to acquire control of Flint Hills Bancshares, Inc., and thereby shares of The Citizens State Bank, both of Gridley, Kan.

▷ Kristine L. MacDonald Ixonia Trust and others filed to join the Lubar Family Control Group and acquire shares of Ixonia Bancshares, Inc., and thereby control Ixonia Bank, both of Ixonia, Wis.

▷ Sarah George, Louisburg, Kan., filed to acquire shares of Central Kansas Bancshares, Inc., Woodbine, Kan., and thereby acquire shares of The Citizens State Bank and Trust Company, Council Grove, Kan.

▷ Glacier Bancorp, Inc., Kalispell, Mont., filed to merge with Community Financial Group, Inc., and thereby acquire Wheatland Bank, both of Spokane, Wash.

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

▷ Sandra Kay Fowler 2023 Irrevocable Trust, Kenneth Fowler, as trustee, both of Lansing, Mich., authorized to acquire shares of Bank Michigan Financial Corporation, and thereby acquire shares of Bank Michigan, Brooklyn, Mich.

▷ The First National Bank in Carlyle, Ill., authorized to become a member of the Federal Reserve System.

▷ CBI Bank & Trust, Muscatine, Iowa, filed to purchase certain assets and assume certain liabilities of Farmers Merchants Bank of Illinois, Joy, Ill., and to establish a branch in Joy.

▷ Notice filed by Libertyville Savings Bank Employee Stock Ownership Trust, Fairfield, Iowa to become a bank holding company by acquiring 27.02 percent of Village Investment Company and thereby acquiring The Libertyville Savings Bank, both of Fairfield, Iowa.

▷ Oikonomia Financial Holdings, LLP, Colorado Springs, Colo., and others filed to acquire shares of Integrity Capital Holdings, Inc, and thereby acquire control of Integrity Bank & Trust, both of Monument, Colo.

▷ Bradley Dean Meester, Bigelow, Minn., as co-trustee, authorized to acquire shares of First State Bank Southwest KSOP and Trust and thereby acquire shares of First Rushmore Bancorporation, Inc., Worthington, Minn.

▷ Bank of Pontiac, Ill., filed to purchase certain assets and assume certain liabilities of Farmers-Merchants Bank of Illinois, Joy, Ill.

▷ Terre Haute Savings MHC, Inc., Terre Haute, Ind., filed to acquire First Savings Bank, Danville, Ill.

▷ State Holding, Inc., Richmond, Mo., filed to become a bank holding company through the acquisition of shares of The State Bank, Richmond.

▷ Liberty Bancorporation, Inc., Liberty, Ill., authorized to merge with North Adams Bancshares, Inc., and thereby acquire North Adams State Bank, both of Ursa, Ill.

▷ The Luck and Guts Trust, with Trudi Holthouse as trustee, both of Casper, Wyo., authorized to acquire shares of Jonah Bankshares, Inc., Casper, Wyo., and thereby acquire shares of Jonah Bank, Casper.

▷ Hoeven Family Limited Liability Limited Partnership, Bismarck, N.D., and John H. Hoeven III, and Marcela Hoeven Samson, as general partners, both of Minot, N.D., authorized to acquire shares of Westbrand, Inc., and thereby acquire shares of First Western Bank and Trust, Minot.

▷ The Louise N. Kanive Trust, Louise N. Kanive as trustee, both of Orono, Minn., filed to acquire shares of First Lacon Corp., and thereby control The First National Bank of Lacon, Ill.

▷ Jeffrey Alan Svajgr, Omaha Neb., filed to acquire shares of Midwest Banco Corp, and thereby acquire shares of Waypoint Bank, all of Cozad, Neb.

▷ Kansas City Banner County Ban Corporation ESOP and Trust, Harrisburg, Neb., authorized to acquire shares of Banner County Ban Corporation and its subsidiary, Banner Capital Bank, both of Harrisburg.

▷ Notice filed by Sandra Kay Fowler 2023 Irrevocable Trust with Kenneth Fowler as Trustee, both of Lansing, Mich., to acquire shares of Bank Michigan Financial Corp, Ann Arbor, Mich., and thereby acquire shares of Bank Michigan, Brooklyn, Mich.

▷ Clark Bancshares, Inc., Clarks, Neb., authorized to acquire substantially all of the assets of M&L Cave, Inc., dba Silver Creek Insurance Agency, Silver Creek, Neb., and thereby engage in insurance agency activity.

▷ Independent Bancshares, Inc., Excelsior, Minn.,, through its subsidiary, Quoin Bancshares, Inc., Clarkfield, Minn., authorized to acquire Quoin Financial Bank, Miller, S.D. ■

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