Long-Term Strategies for Short-Term Success: Ten Warnings for Directors and Executive Officers

Presented By:
Greyson E. Tuck
Gerrish Smith Tuck, Consultants and Attorneys

Presented at:
Independent Bankers of Colorado
44th Annual Convention
September 22, 2017

WARNING!
1. Warning – Don’t Forget Your Real Job to Enhance Shareholder Value

- Allocate human and financial capital to enhance shareholder value
- Do you pass the test?
  - Earnings per share growth
  - Return on equity – 10% to 12%
- Share liquidity
- Appropriate cash flow to the shareholders
- Safe and sound operations

2. Warning – Plan for Independence or Kiss Your Bank Goodbye

- Independence is an action, not a condition
- Are you a buyer or a seller?
- Establish your independence strategy
- Understand your fiduciary duties as it relates to acquisitions
- If you are going to be proactive, be proactive realizing your limitations
3. Warning – Worry About Capital, but Not Basel III

- Capital is still king
- Debt leverage makes the most sense
- Small Bank Holding Company Policy Statement - $1 billion
- Sell equity if you have a buyer and you don’t mind ownership dilution
- Don’t lose sleep over Basel III; the examiners are tougher than its minimum requirements

4. Warning – Don’t Let Someone Else Be Your Market Maker

- Over the counter or bulletin board stocks have very little liquidity
- Allocate capital to repurchase shares and establish the price for your holding company stock
- Be the market maker; set the floor
- Create liquidity for your shareholders
- Consider voluntary and involuntary stock repurchase programs
5. Warning – Don’t Let Mandatory Retirement Do Your Dirty Work for You

• Board succession
  – Mandatory retirement or other alternative
• Management succession
• All levels of succession

6. Warning – Don’t be Book Value Junkies

• Understand how merger transactions are priced
• Understand the value of your bank
• Just because your neighbor got book and a half does not mean you should too
• Target’s earnings stream plus cost savings and revenue enhancements is what you are buying
• Book value and earnings multiples are calculated after the fact
7. Warning – Don’t Get Caught Off Guard by Compliance

- If you are doing anything unusual, look out
- Unfair, deceptive and abusive practices
- Fair Lending
- Redlining
- The Wells Fargo problem
- Compliance is here to stay

Hot Topic:
CECL

- Current Expected Credit Loss model (CECL)
  - Replaces “incurred loss” model with “expected loss” model
  - Community bank (non-public) compliance begins 2021

- Project future losses based on:
  - past events,
  - historical losses,
  - current market conditions, and
  - future estimates

- Long-term data requirements currently unknown
8. Warning – Compensate your Talent or Someone Else Will

- Cash
- Incentives (you get what you incent)
- Equity
  - ESOP/KSOP
  - Restricted stock
  - Stock options
  - Other hybrids
- Deferred Compensation/BOLI

9. Warning – Work With, not For, your Regulators

- Necessary evil
- Safety and soundness kinder and gentler
- Compliance not
- Communicate – regulators do not like surprises
Current Regulatory Hot Buttons

- Cyber Security
- Director issues
  - Credible challenge
  - Training
  - Enhanced oversight
- Corporate Governance
- Commercial real estate
- Civil money penalties/removal actions
- Expense issues
- Enterprise Risk Management

10. Warning – Plan for It or It Won’t Happen

- Effective strategic planning
- Annually
- Create an agenda (two agendas)
- Stay away from the process and focus on the substance
- Use an outside facilitator (shameless self-promotion)
- Provide accountability
Conclusion

• Take these warnings to heart
• Good future for community banking
• Don’t forget all of your constituencies