

THE



Board Chair Forum

Opening the door to new ideas

NEWSLETTER

Gerrish Smith Tuck, Consultants and Attorneys

April 2020

In last month's edition of this newsletter, we began with the saying "Life comes at you fast!". If we were to adopt a similar message for this month's edition, it might be "Life marches on". There certainly is a recognition now that the shock of substantive change has worn off, that we are now finding ways to cope, manage and even thrive in the midst of change. Therefore, in this month's edition of the newsletter, we take a look at how this change is impacting community banks and how we can continue to utilize that for our benefit.

Perhaps more importantly, we also reaffirm the role of the Board Chair during this critical time, not necessarily to be a subject matter expert on new technology or new types of change, but to certainly be an advocate for adopting change where necessary in an organization and being willing to take a strong leadership role as well as a collaborative role with your other Board members and management when needed. We also provide some ideas regarding how to view your management team and the impact on your budgeting process during this unique time.

Keep up the great work out there and we will look forward to seeing all of you very soon. In fact, in this newsletter you'll find a new way to keep up with us and have the opportunity to see us perhaps a bit more often!

Happy Reading!

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Gerrish Smith Tuck, Consultants and Attorneys
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Board Chair's Summary

- ◆ The Board Chair may need to monitor, adapt and mandate change.
- ◆ You do not have to be a subject matter expert to lead.
- ◆ Reconsider the use of your budget.
- ◆ Do you want to see us more?

Life (and Banking) Marches On

It's true that in the past 60 days we have all had some aspect of our lives turned upside down, rearranged or at least modified in some way. But now that the initial shock of those changes has passed, we are all finding new footings and new ways to handle our businesses. That is probably more true of banking than in other industries where things like the Paycheck Protection Program (PPP) have only heightened the workload for us. So, banking is certainly moving on in the midst of COVID-19 concerns and, therefore, the role of the Board and, in particular, the Board Chair continues to be of paramount importance. Therefore, consider what your role is in monitoring, adapting to and perhaps even mandating change within your organization.

For about the past two years, as we have continued to promote community bank independence across the country, we have suggested that no matter how small a bank, no matter where it is located in the country, no matter what it's local economy or loan portfolio looks like, community banks can maintain their

independence provided they are willing to embrace one key concept. We often state that concept this way: Community banks cannot merely exist in a state of independence, they must take action to ensure their independence. Furthermore, the action that many community banks need to embrace is change. We believe that concept has now been demonstrated perhaps more strongly than ever before.

For those banks that are embracing the idea of change by continuing to scrutinize their own organizations and looking for opportunities to change, rather than having change thrust upon them, we see organizations beginning to adopt more forward-thinking use of technology, organizations looking to provide liquidity for their largest stockholders that need it, organizations focused on improving the lives of the citizens in their communities and organizations working to promote management, board and ownership succession where needed, just to name a few areas. That attitude of being willing to adopt change as a strategy is certainly prevalent now with things like the PPP that none of us had heard of until a few short weeks ago. We are now processing record loan applications, perhaps receiving SBA guarantees where we weren't even an SBA lender and taking other unique steps.

Community banks can adapt to change quickly and thereby continue to promote their success, viability and ultimate independence provided there is a willingness by the Board Chair, the Board members and senior management to embrace change as the lifeblood of the organization and not as a poison that will kill it. We hope you are finding a willingness to embrace change in your organization and that you, personally, are also willing to accept and embrace change when change is needed.

Thinking Ahead

In light of the discussion about change, what types of things do you think community banks are going to need to embrace in the future? Recently, we read an article about how more and more customers are now going to be willing to accept, if not actually demand, more video-banking opportunities. If we believe that one of the strengths of community banks is our personal service compared to the automated world of the big banks, consider whether it is possible to provide personalized “high touch” service without actually being able to physically touch the person. Can I reserve a 15-minute block of time at 9:45 a.m. tomorrow morning to meet with a lender in a video chat from my cell phone? Would my senior lending officer be able to meet with a farmer one evening after the conclusion of the day’s farming operations where both are at home on their personal computers to review loan documents and maybe even receive an electronic signature on the farmer’s extension of his operating line of credit? You see, providing personal service may no longer require us to be “in person”. In light of that dynamic, as Board Chair are you qualified to continue leading your organization? Do you have to be a video-chat expert to serve as Board Chair? Do you have to know all the ins and outs of how the bank might adopt a peer to peer platform for the transfer of money in order to be an effective Board Chair? The clear and short answer to all of those is no, you are not required nor are you needed to be the technology expert. What your community bank needs is your leadership and the recognition of a need for the organization to hire or purchase the expertise needed to continue promoting change. In fact, those leadership skills may best be offered by those who are not the subject matter expert. So, the Board Chair’s leadership continues to be vitally important regardless of your individual expertise on technology or other new and emerging areas.

Is Your Budget Useless?

Recently, we received a question from a Board Chair that essentially asked this question, what good is the budget? The Board Chair's comment was that the budget had obviously been developed well in advance of Coronavirus concerns and, therefore, all of the anticipated revenue structures from traditional lending and investment activities are clearly not going to unfold the way it was expected. Similarly, the organization's overall expense structure may have changed significantly. So, is the budget worthless?

In this situation, and in many of the situations of our clients, the budget is often of vital importance because executive compensation may be tied to benchmarks in the budget. If you are a senior loan officer trying to ensure that total loan production in a particular targeted area exceeds budget by a certain percentage in order to achieve your incentive compensation goals, has that now, in essence, become a disincentive because you realize there is no way you are going to meet that this year? Should we, alternatively, simply modify the budget to meet the current conditions? Consider also, that with the influx of PPP loans and the origination fees many of you are expecting off of those, the question may not be whether your economic performance does not meet budget expectations, but, rather, whether the anomaly of the huge increase in origination fees will skew financial performance metrics in a favorable way, but where underlying operational performance is not really consistent with those inflated numbers.

We generally do not favor modifying the budget. It is what it is. Even if the environment changes substantially, it is important then to be able to measure the extent of the change in the environment compared to what your expectations originally were as reflected in your budget. You might find it helpful to see the level of variance in loan production of key officers or in key loan categories. You

might want to see where additional expenses increased or perhaps even more importantly the areas where you were able to save some operational expenses which produce a recognition of new areas of greater efficiency within your organization once things returned to normal.

Furthermore, in light of the concerns of your officers, or based on some other element of your compensation structure, maybe you make a one-time exception to your incentive compensation plan that recognizes the uniqueness of COVID-19 where management might still be entitled to some type of incentive compensation at the end of the year or at least the right to earn additional compensation through their hard work and dedication during this crisis, but where the payment is perhaps deferred a year until the bank can assure itself of its financial stability. Likewise, on the positive side of things, your organization might consider a strategy of matching additional PPP origination fees as an offset against increased reserves. Please see our most recent *Gerrish's Musings* article for more information. The bottom-line is that there are probably still good uses for your budget in this unique time as long as the Board recognizes that holding management accountable to the old performance metrics that were established in a different time and place for the budget may not be an appropriate “measuring stick”.

Practicing What We Preach

Given that we are highlighting the need for ongoing change in your organizations as part of this newsletter, we certainly want to be followers of the concepts we put forth within our own business. In that regard, we are pleased to announce that Gerrish Smith Tuck is going to be initiating a new, free, periodic video-newsletter that we are calling “Community Bank Commentary”. These “commentaries” will be in addition to the other free email newsletters you are

provided. The videos will simply update you on a few additional key topics we are seeing or that we have encountered that we can share with you between the times of our newsletters and it will also give you at least a video opportunity to see us face to face during this time of more limited travel. It will also force us to shave occasionally! We look forward to your thoughts and comments on our new video series which we plan to launch in May.

Meeting Adjourned

Keep your optimism up and keep your banks running strong. We are going to be through this unusual time sometime in the near future, hopefully! Until that time, strong leadership continues to be required of the Board Chair and we hope you and your Board and your management are encouraged by the clear need for community banks which have become even more evident during this perilous time. You are all doing great work and it's our great pleasure to be affiliated with so many of you. Hang in there!

Until next time,



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