The
Board Chair Forum
Newsletter

Opening the door to new ideas

Gerrish Smith Tuck, Consultants and Attorneys
January 2022

Happy New Year and welcome to the first edition of *The Board Chair Forum Newsletter* for 2022! We have just in the past few weeks wrapped up the onsite Board Chair Forum in Naples, Florida with Chairmen and Directors from around the country participating in a wide-ranging discussion, much of which we will highlight in this month's newsletter. If you have not had the chance to attend this event in person in the past, we look forward to seeing you at future events.

The end of 2021 was quite hectic for us and for many of our clients, racing to close multiple types of transactions. Normally, then, the first part of January is not quite as hectic but 2022 is not holding true to form. It seems the hectic pace of 2021 has carried right over and is going full throttle into the new year in terms of merger and acquisition transactions, strategic planning, ownership and family planning matters and the rest of the typical community bank scenarios. So, we are thankful for the busyness and profitability of our clients and we are happy to jump right into 2022 and meet your needs as they arise. We hope this edition of *The Board Chair Forum Newsletter* and all of those to come in 2022 serve as a valuable resource to you and we look forward to seeing many of you in the coming weeks and months.

Happy Reading!

Jeffrey C. Gerrish   Philip K. Smith   Greyson E. Tuck

Gerrish Smith Tuck
700 Colonial Road, Suite 200
Memphis, TN 38117
Phone (901) 767-0900
Website: www.gerrish.com

HOW TO CONTACT US:
If you have questions or comments about the newsletter or would like to ask a follow-up question, please email Philip Smith at psmith@gerrish.com.

The

Board Chair Forum

Opening the door to new ideas

Newsletter

Gerrish Smith Tuck, Consultants and Attorneys

January 2022

Board Chair's Summary

- ***Board Chair Forum Recap***
- ***Should You Extend Your Strategic Planning Into New Areas?***
- ***How Long Does a Contract Last?***
- ***Are You Digital or Relational?***

Board Chair Forum Recap

In the middle of January, we hosted the Board Chair Forum onsite conference in Naples, Florida as sponsored by The Barret School of Banking. Once again, this was a wonderful conference, the weather was great and some really interesting discussion that, this year, took on a bit of a different feel. We thought you might find it interesting to see the range of different topics discussed. Here is a listing: Maintaining Profitability; Labor/Talent Recruitment and Development; Our Aging Shareholder Base; Board, Management and Ownership Succession; Remaining Relevant in a Changing Environment; Regulatory Changes Facing Community Banks; The Decrease of Non-Interest Income and Alternatives; Technology Planning for Community Banks; Splitting the Titles of President and CEO; Capital Raising Alternatives; Dealing with the Remote Workforce; Cryptocurrency, Bitcoin and Other Forms of Digital Currency; Practical Ways of Managing Board Meetings; The Use of an Advisory Board; Incentive Plans; Board Diversity and Inclusion; and The Overall Outlook for Community Banks in a Digital and Technology Driven Environment.

In particular, this year's Forum saw directors and board chairs from across the country focusing on big picture concerns regarding the overall *relevance* of their organization, the ability to compete with Fintech companies and digital providers, the role that different payment structures and payment options like Venmo are having on community banks and how all of those issues are impacting the merger and acquisition market. The good news is that community bank directors and board chairs are not necessarily pessimistic regarding those issues as much as they are interested in trying to find ways to keep their organizations relevant that are cost effective. It seems one of the key takeaways from the Forum for the board chair and other directors was to recognize that complacency will not work as a sustainable strategy. We must constantly be updating our organizations because of the speed with which technology is overtaking the industry. That burden may fall to the board chair to set a strategic direction and vision for the organization that embraces change where necessary yet continues to provide traditional community banking to your customers who generationally still expect high touch personal service. That is the great quandary for the community banking industry but it's one we all continue to meet on a day-to-day basis. Hang in there!

Strategic Planning - Extended

Practically every bank engages in strategic planning on some level. For some of you it's probably an informal gathering for a few hours in the board room once a year to talk about key items. For others of you it likely involves an outside facilitator (we know some really good ones if you need a recommendation!) for a few days at an offsite location with multiple work sessions or something similar. There is no one size fits all. However, throughout 2021 and into 2022 we have seen an emerging trend that we sometimes call "Strategic Planning - Extended".

What we mean by this is that traditional strategic planning needs to be undertaken where all of the core elements are discussed. But many organizations are now extending strategic planning on a follow up basis to other areas of critical importance. For example, we've seen discussions at a planning session lead to a follow up "Part 2" where family issues need to be addressed and resolved. Sometimes that even takes on the form of a bit of family mediation but addressing those issues of ownership, succession, officer positions and titles, and other unique community bank and family-owned issues in a separate setting might be important. Similarly, we have had a number of organizations extend their strategic planning in a second part where our firm has assisted with conducting an organizational study, a board and management assessment or something similar. Whether you need to look at the committee structure of the board, or take a fresh look at the overall organizational chart of the institution, consider whether there is more to be done with your strategic planning rather than simply revisiting your mission statement or your existing plan.

How Long Does a Contract Last?

Can a contract last forever? We recently ran into an interesting situation in the context of representing a bank in a merger and acquisition transaction. We suspect this situation is not too different from one many of you may have encountered. While the merger and acquisition environment is certainly moving at a super-fast pace currently, we really have been in an environment where a pretty good number of transactions occur each year for about the past five to ten years. As part of that many of you have probably signed contracts with lawyers, investment bankers, consultants, accountants or other advisors to help you in one way or another in looking to be a buyer or a seller. In many circumstances, if a particular transaction doesn't go through the parties quietly terminate discussions. If you have any payments due to your professionals that are assisting you, typically you make those payments and everyone walks away with no further obligations. The exception is that many advisor or investment banking contracts provide that a bank is not permitted to terminate the contract, relieve itself of any further obligations and then turn around and do a deal with that party that the advisor brought to the table and cut the advisor out of a fee that would be due for generating that party. That type of extended obligation might last 12, 18 or 24 months.

However, what happens if four or five years later, your community bank or holding company decides it wants to get back in the game and look to be a buyer or a seller again and perhaps even want to start talking to the party that it previously was considering for a deal. Would you suspect that you would still owe your former lawyer or investment banker or accountant or consultant a fee? Most of us would agree you would not. However, in a recent situation with which we were involved, the contract that the bank previously executed four or five years ago appeared to be a "contract in perpetuity". In essence, unless the bank had formally contacted the professional and given specific notice that they were terminating their relationship under the contract then the professional believed the contract still existed and the bank would owe them a fee even if the bank chose now to engage other professionals. Obviously, we disagree with the idea of a “forever contract” nor would our firm choose to take that approach with clients. But, it’s a caveat to review your contracts closely and make sure there is no basis for an advisor to deem the contracts to be “ongoing”. Fortunately, the situation seems to have worked itself out. But you might consider that, at the end of every transaction, or even potential transaction, you might want to make sure all of the professionals assisting you know that there is no ongoing relationship for which a fee could be claimed unless you explicitly agree to that or sign a new contract. Better yet, the Chairman and management should keep an eye on this and avoid signing any contract on the front end that appears to be a “contract in perpetuity”.

Are You Digital or Relational?

Recently we were with a board of directors discussing its outlook on the future, the growing technology “threat” (at least as they saw it), the evolution of the types of customers and the needs of customers and other issues regarding the growing trend toward focusing on organizational relevance.

As part of that discussion with the board, one of the directors made an interesting comment that the question is whether the organization should continue to focus on being a typical community bank that is “relational” or whether the organization needed a mission shift to focus with intentionality on being more “digital”. As part of that discussion with the board we talked about the uniqueness of how community banks view their mortgage products compared to the growing use of online vehicles like Rocket Mortgage. In a community bank we pride ourselves on telling customers that if you want a mortgage with our bank you are more to us than just a number. We will get to know you. We will meet you face to face. We want to understand your needs. We want to know your children’s names and what grades they are in at school. We want to develop a total relationship with you and earn your business and loyalty and provide the most basic of American needs, a mortgage loan. Yet, look at what Rocket Mortgage has done.

Rocket Mortgage seems to have turned the concept of being “relational” totally on its head. They all but market themselves with the idea that you are, in fact, just a number to them! They don’t want to get to know you, they don’t want to know your kids’ names. What they want to do is give you the best and cheapest product as quickly and efficiently as possible and you don't have to come to the branch and sit in a club chair and eat a peppermint out of Ms. Mary's jar to get a mortgage loan. They've taken what we thought was a community bank's strength of being "relational" and made it look like a weakness by being 100% focused on being digital. The younger generation seems to be gravitating toward that.

Now, that's not to say that is the way to go and certainly many of those customers will find that they wish they knew their local banker when they have trouble making their mortgage payments but it's incumbent upon us as community banks, and you as Chairman, to see the uniqueness and the difference and look at this balance between being relational and digital. Those community banks that survive and thrive and maintain their relevance will not forsake relationships for technology but rather, will find a way to marry the two together.

Meeting Adjourned

Well, "off and running" is an understatement for many of our clients and our readers. More like "never stopped sprinting". So, we are thankful to have the opportunity to work with so many of you around the country during this busy time and we look forward to renewing acquaintances this year and making new friends and clients along the way. Please don't hesitate to reach out to us any time we can be of service to you or your organization or feel free to call and just say hello. We won't even charge you for that!

Until next time,

Jeffrey C. Gerrish | Philip K. Smith | Greyson E. Tuck

Gerrish Smith Tuck
700 Colonial Road, Suite 200
Memphis, TN 38117
Phone (901) 767-0900
Website: www.gerrish.com

HOW TO CONTACT US:
If you have questions or comments about the newsletter or would like to ask a follow-up question, please email Philip Smith at psmith@gerrish.com.