



The

Board Chair Forum

Newsletter

Opening the door to new ideas

Gerrish Smith Tuck, Consultants and Attorneys

March 2025

In this month's edition of *The Board Chair Forum Newsletter*, we suppose the issue could be styled as a "How to Improve Your Community Bank" guide. We touch on a number of areas where we see some missteps being made by banks and offer some ways to look at your situation differently. For example, to promote greater liquidity of your community bank holding company stock, should you be listed on an exchange? If your holding company is on an exchange, why isn't there any more liquidity than it had before? Should your bank and holding company curtail DEI initiatives or focus on different types of diversity? If stockholders of the same family want different outcomes, can you provide those?


We also kick off the newsletter with a focus on organizational relevance. It is certainly a concept we promote, but there are many different ways of looking at that. We offer some suggestions from some planning sessions and other board meetings we have attended around the country, where banks sought to define ways in which they needed to change the organization to pursue relevance. We hope you will find some of these relevant for your organization.

If we can ever be of assistance to you on any of these or other matters, or if you simply want to call us and bend our ear a bit, we are always happy to listen.

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.

Copyright © 2025 – Philip K Smith

This document has been prepared by Gerrish Smith Tuck, PC and Gerrish Smith Tuck Consultants, LLC ("Gerrish Smith Tuck") for informational purposes only and is not, and should not be construed as, legal, accounting, tax or other professional advice on any subject matter. This document and the information presented herein do not create an attorney-client relationship and are not a solicitation to offer legal advice. Any responses to any question regarding the information contained in this newsletter will not create an attorney-client relationship, and whatever information is disclosed will not be privileged or confidential unless Gerrish Smith Tuck has agreed to act as legal counsel and a written engagement letter with Gerrish Smith Tuck has been executed.

To protect the exclusive rights and privileges the author or others may have pursuant to applicable intellectual property or other laws, any use of this publication to "train" generative artificial intelligence (AI) technologies to generate text is expressly prohibited. The author and other third parties with such rights and protections reserve all rights to license use of this work for generative training and development of machine language models, or any similar application.



The

Board Chair Forum

Opening the door to new ideas

Newsletter

Gerrish Smith Tuck, Consultants and Attorneys

March 2025

Board Chair's Summary

- ◆ *How to Pursue Relevance*
- ◆ *Why is My Stock "Listed"?*
- ◆ *Diversity and Social Issues*
- ◆ *Give Everyone What They Want*
- ◆ *When is a Forum Not a Forum?*

How to Pursue Relevance

At many of our strategic planning sessions around the country as well as our multiple speaking engagements, we are often speaking about ways in which the organization can maintain its independence by pursuing stakeholder value as well as maintaining organizational relevance. We believe it is the job of the Board Chair to set the right tone and culture within the organization to actively pursue those steps, particularly in the current environment, with a focus on continuing to maintain organizational relevance. But what does pursuing relevance look like?

We believe organizational relevance is holistic in the sense that your bank is trying to create relevance for customers, your community, stockholders, and employees. Recently, we had the opportunity to compile some notes from a couple of different client meetings where the issue of staying relevant became paramount. We thought we would share some of those compiled thoughts and comments which we think paint a pretty good

picture of the mindset the Board Chair and the Board of Directors in general should have when governing the organization. So, we wanted to pass those along and these comments are set forth below for your additional thought and consideration. Maybe consider discussing these or similar questions at your next board meeting or planning session:

- Rather than just focusing on meeting customer needs, we also need to specifically focus on avoiding customer dissatisfaction.
- As a community bank, we must recognize that we still maintain an older customer base, but continue to have younger employees (hopefully), so we should train younger employees on more traditional, personal interaction aspects like shaking hands appropriately, making eye contact, and putting customer service first.
- We must be honest about threats to the organization and actively develop strategies to avoid such threats. This includes threats from asset quality, credit unions, online providers of financial services, and regulatory threats.
- Our organization must pursue efficiency, even if it means spending money in the short term to create greater efficiencies in the long term.
- Our organization should continue to streamline the customer experience, including the potential adoption and use of software and AI tools, where appropriate.
- The bank needs to improve its collection of, and find better ways to utilize, the data it has regarding its customers, and be more predictive in terms of trying to meet their needs. We should think like Amazon in this regard.
- Relevancy for our employees may mean focusing on creating a more positive work environment, identifying appropriate opportunities for flexibility of work schedules, yet developing specific policies and strategies around things like remote work, the measurement of productivity, and maintaining employee engagement.
- We believe community banks will have a growing need to diversify the various methods of the delivery of their products and services. The way an elderly grandmother wants her financial services delivered is entirely different than the way her grandchild wants the services delivered. Do you offer both a welcoming, appropriately sized lobby, as well as the opportunity to avoid coming into the bank at all with appropriate online tools?
- Our organization will focus on promoting and requiring Board succession planning through either mandatory retirement, periodic evaluation, a list of director

expectations, or other mechanisms. Similarly, we will ensure that we have appropriate management succession planning, ownership succession planning, and even customer succession planning.

- To stay relevant, we must increase our focus on cybersecurity, fraud prevention and fraud detection, and elevate those to board level concerns.
- To provide relevance for our employees, we will develop career pathing and in-house training for our new and younger employees.
- Overall, our organization must avoid falling into a strategy of complacency, where doing well and being comfortable leads to a lack of change.

As Board Chair, do you feel like your organization is pursuing relevance? You might consider raising these kinds of issues at your next meeting or asking the board members and the executive management what it would take to make your organization more relevant. If you do not get any good answers, try asking some college students in their twenties what would make a financial institution relevant. You may be surprised at the responses!

Why is My Stock “Listed”?

Interestingly, as we travel around the country, we find there are various pockets or even states where there are a disproportionate number of community banks that may have their stock “listed” on some type of stock exchange. Most often, these banks are not on one of the broad national markets like the New York Stock Exchange or the NASDAQ. Rather, most often these financial institutions are found on the OTCQX or the “Pink Sheets.” The general idea behind having a stock listed on one of those types of exchanges is multi-faceted, but typically includes the intent to draw greater awareness to the stock, support a trading price for the stock, create liquidity for shareholders who can sell on the exchange, and perhaps promote the ability to sell more stock and raise more capital when needed. However, for most financial institutions, in order to achieve any of those results, we suggest the organization would likely need 3,000 to 5,000 stockholders, not 300 to 500. Otherwise, in most cases, there is little, if any, benefit to actually having the stock listed

on the exchange, and there may be a significant downside or detriments to having the stock listed.

One of the biggest concerns for smaller organizations with a limited number of stockholders having their stock traded on one of these minor exchanges is the loss of control over the stockholder base and the loss of control over the share price. Many times our clients find that there are one or more parties beginning to accumulate stock, yet they may not know who the parties are because they have requested to be an “objecting beneficial owner” or perhaps the brokerage account is the only name listed. In those cases, if we were to be bluntly honest, no third party is generally accumulating relatively large amounts of your stock because they believe in your mission statement and your commitment to your local community. Rather, they see an undervalued stock that has some potential for upside if they acquire the stock, put members on the board, potentially force a sale, etc. There are a number of activist investor groups that are somewhat notorious for that.

Over the last couple of years, we have also found that in almost every case where a bank and bank holding company has its stock listed on one of these quasi exchanges, there is very little trading volume, very little liquidity for shareholders wanting to sell, and the price at which the stock trades on the exchange is often even less than book value, and of course, book value is even less than the true value of the stock. In fact, we are beginning to get a number of calls from banks across the country to speak to the board of directors about what is perceived as the “upside down” value of the stock, and the options of how to increase the price of the stock on the exchange. In those circumstances, our general recommendation is not necessarily to try to specifically increase the price of the stock on the exchange, but to merely ignore the exchange altogether, or take the steps (relatively simple) to have the shares “delisted” and focus on your holding company making its own market in the stock, serving as its own transfer agent, reducing the overall cost to the organization, and the like. In essence, the organization takes back control of the value of the stock rather than leaving it to other parties.

There certainly seems to be some pride associated with having your own trading symbol and feeling more like a big bank holding company, but the reality is we find most of our clients that are listed in some way on a minor market would be better served focusing on ways your existing holding company can buy back shares and promote trading, as well as raising capital when needed.

Diversity and Social Issues

Is the Board Chair responsible for promoting diversity on the Board? Is diversity even important or necessary? More importantly, does it actually help organizational value in any way? It probably depends on what type of diversity you are talking about and how you get to that diversity.

Recently on a national level, both for banks and other organizations, there has been a decided movement away from the formal adoption of diversity, equity and inclusion (DEI) initiatives. In fact, it has arguably been a dramatic swing in the opposite direction from the way in which DEI practices were heading. So from a Board of Directors standpoint and the Board Chair's position it probably seems like one minute you are being told you have to do certain things, you have to have three of that kind of person and two of this kind of person, there is a general expectation that you go out of your way to find all different kinds of diversity, etc., and then the next minute you're told nevermind, we're not focusing on that anymore.

If you speak to most Board Chairs, they will agree that diversity on the Board is positive for the organization in many ways. However, that can be diversity across a whole spectrum of things, not in what is typically the primary focus, which is diversity of race or gender. Rather, most Board Chairs want and need diversity of thought, diversity of age in their members, diversity of background, diversity of business experience, and a whole host of other things. That, of course, often leads specifically to electing directors that, in fact, have diversity of race, gender, ethnicity, or the other typical focal points. But it is also true that when we have seen those elements being forced upon an organization, they rarely have

positive benefits. Rather, the natural inclination toward diversity on the Board when it is organic and is a focus of ways to improve the organization rather than ways to simply check the boxes that someone else is forcing on the organization, tends to lead to a wonderful community of directors, and the resulting diversity produces much better results than a “fake diversity” that has merely been adopted by an organization because they felt like they had to. So, don’t let a deemphasis on diversity initiatives curtail your efforts, but reshape your focus on true diversity of thought on your Board, as well as other attributes, and you will find that a natural diversity that is created, better helps your organization.

Give Everyone What They Want

One of the mistakes we sometimes see Boards of Directors and the Board Chair make is thinking of your stockholder base, or even multiple members of a family, as a monolithic group all with the same needs and desires, and all of whom need to be treated the same. This kind of issue often, unfortunately, presents itself upon the death of a stockholder who may have owned a large block of stock and then chose to equally divide the shares among different family members. One family member may currently be employed in the bank and simply appreciates the increased ownership percentage and wants to continue long term within the organization. Another family member may no longer live in the area but believes that the stock ownership is a good investment and so becomes a passive stockholder, enjoying the dividends but otherwise not being involved in the organization. Finally, another family member may feel they have won the lottery, love getting the stock, and now want to sell it to get the cash to do whatever they want, since they no longer have any connections to the community, the bank, or maybe even the other family members.

Why can’t everyone get what they want? Through proper strategic planning, capital planning, and ownership succession planning, we should be able to provide liquidity to the shareholder that wants to sell, enjoy the benefits of having a large but passive stockholder that lives out-of-state, and continue to have the benefit of the legacy of the family working

in the bank. Not all stockholders need to be treated the same, nor do they have the same desires. As Board Chair and as board members, we should welcome and promote diversity of action in meeting the needs of individual shareholders. We do not have to create situations where, for example, either we offer to buy everyone's shares or we offer to buy no one's shares. Keeping shareholders happy, even if the way to keep them happy is to buy their shares (sometimes even at a small premium), often provides the best results longer-term and promotes independence.

When is a Forum Not The Forum?

As most of you know, *The Board Chair Forum Newsletter* has been around a while and the Board Chair Forum we hold at least once a year has been around even longer. At that forum that we have held the past several years in Marco Island, Florida, and which is hosted by the Barret School of Banking, it really is an open-ended discussion for Board Chairs, other directors, and executive management from around the country to share their thoughts and input on what is impacting their financial institutions, and community banks in particular, so that we can all learn from each other. In addition, over the years we have hosted other forums and even recently facilitated the ICBA's Family Bank Roundtable and forum discussion at the ICBA's Annual Convention in Nashville.

However, we recently saw another group hosting a forum, of all places, in Marco Island, Florida, and this other forum also is targeted for Board Chairs, directors, and the like. We wouldn't discourage you from attending, but because of the potential confusion with what we do, we simply wanted to clarify it is not affiliated with our firm or the Barret School of Banking. However, with the rapid pace of change confronting community banks, you can never have too much education!

Meeting Adjourned

It is hard to believe we are into the second quarter. We have certainly been on the road a bit, enjoyed the ICBA Annual Convention, and are looking forward to Spring blossoming for those of you where it hasn't made it yet.

We will close this edition with a few interesting quotes we have run into recently that you may find beneficial and which are somewhat reflective of this month's edition.

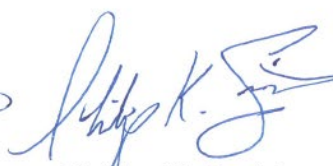
"The pace of change has never been faster than it currently is, and it will never be this slow again."

"Where there is a better way to do something or a best way to do something . . . do it!"


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.