



Opening the door to new ideas

THE

Board Chair Forum

NEWSLETTER

Gerrish Smith Tuck, Consultants and Attorneys

October 2025

Fall is here! Well, sort of. Cooler temps in some parts of the country, still heat and humidity in others, but college football is back so that feels like Fall to many of us.

Fall is also dominated by many organizations conducting their annual strategic planning sessions and we are blessed and honored to be able to help many of you in that process, particularly our clients and friends that have us back year after year. This year is certainly busy and between now and Thanksgiving will continue to be hectic, but in our coast-to-coast travels we have already picked up some interesting things along the way in this beginning part of Fall that we wanted to share with you.

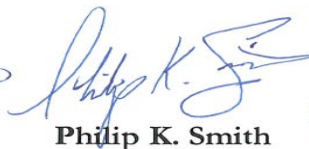
So, in this month's edition of *The Board Chair Forum Newsletter* you will see a little humor with some heavy doses of reality, and we will also dispel some myths and try to hammer home some truths.

We hope there is something for everyone in this month's newsletter, and as always, we welcome your thoughts, comments, and ideas for the future. We also look forward to seeing many of you around the country at some of the annual conventions and other places where we have speaking opportunities. Always please come up and say hello!

Happy Reading!



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Board Chair's Summary

- ◆ ***Whose Decision Is It?***
- ◆ ***What Makes an Effective Director?***
- ◆ ***Dispelling a Few Myths About Your Organization***
- ◆ ***Do You Have a Forever Strategy?***

Whose Decision Is It?

The Board of Directors and the management team, as individual groups, both know and understand that there are some decisions that fall squarely as a responsibility of the Board of Directors, while others are management decisions. However, we occasionally see circumstances arise where there may be some disagreement or conflict in trying to determine who makes a decision, how it is made, and who is responsible for implementation.

For example, consider the organization entering into a large long-term contract with its core provider. Is that a management decision because it is a technical issue impacting how the bank does what it does at a tactical and operational level? Or, is there some argument that because of the size and amount of money to be spent, entering into a new contract should be a board-level decision? On the other hand, question whether the Board has any real expertise in knowing what type of core provider the organization needs, but should they at least be given the opportunity to look at all the various options? Consider

also, what if the management team on its own went out and executed a new long-term data processing contract without knowing or realizing that the Board of Directors was considering a potential strategic transaction with another bank, and the new contract and its cost and termination fees might be a material element that otherwise could have been negotiated in the deal?

From a Board standpoint, is there a fiduciary duty and obligation that arises if certain matters are being considered where, regardless of what management thinks, the Board should assert its power and suggest that it wants to be involved in the decision making? If the Board does that, though, are they overstepping their bounds and engaging in micromanagement?

It is clear that there is no absolute, clear, defining point on various decisions, but we think there are a few thoughts and concepts you can keep in mind to help distinguish when and how each group should be involved. Consider whether any type of decision that involves a designated expenditure of funds should be a board level decision, regardless of how insignificant it may seem. You might want to consider establishing some type of dollar amount threshold for your community bank. Next, if the decision is one that has an inordinate amount of risk, then it seems obvious that overall enterprise risk management falls within the purview of the Board, and therefore, the Board should likely be involved.

For the benefit of the management team, though, we would warn directors about demanding to be involved in decisions just because they want to know. Compensation matters often fall into this category. Arguably, the Board sets the salary for the top level executive at the organization, but it should be the top executive (CEO or President) who is responsible for determining salary structures throughout the organization. The Board does not need to be involved in deciding whether Tommy Teller gets a \$2.00 an hour raise, or whether the CEO thinks they need to pay up a bit for a qualified Senior Lending Officer. Perhaps one of the best ways to ensure there is no confusion is to openly discuss what matters fall within the purview of each, and then take appropriate steps to outline benchmarks. Good luck, because every bank reading this will view their own situation differently! Call us if a fight breaks out!

What Makes an Effective Director?

Recently, we had a question posed to us by a community bank who felt they were having trouble keeping their Board engaged, and even more trouble recruiting new and effective directors. So the question was posed to us, what does it really take to be an effective director? As we began thinking about that, it surprisingly occurred to us that most of the answers we came up with involve the letter “E,” so while we will admit it is a bit hokey, or maybe because the writers of this newsletter also fit that definition, consider that if you want to have an Effective director, you should look for the following characteristics:

- Directors must be Engaged.
- Directors should have appropriate Experience and background.
- Directors should be Excited about the future of the organization.
- Directors should Embrace technology.
- Directors should maintain Exemplary personal and professional conduct.
- Directors should meet all Expectations.
- Directors should Entice their friends to be customers through referrals.
- Directors should support Executive Management.
- Directors should focus on Enhancing stakeholder value.

There are probably dozens of others we could come up with, but we will leave that as a project the Board Chair can assign to board members prior to the next meeting. Perhaps we can just take a letter of the alphabet each month!

Dispelling a Few Myths About Your Organization

Throughout the craziness of the fall strategic planning season, as we crisscross the country engaging with boards of directors and members of executive management and providing assistance as the organizations seek to shape their strategic future, we often find

that there are some prevailing myths that need to be dispelled. In some of these cases, the bank inherently knows the truths that are revealed, but in other cases, the bank genuinely seems surprised at our “take” on things. So, we wanted to share with you a few of these “truths.” You may find some of them funny, you may find some of them thought-providing, and you may even disagree with some of them, but here is some of what we have seen and heard recently, and some of our responses.

There is a fundamental and material difference between being privately-held versus having your stock listed on an exchange, and versus having registered securities and reporting to the SEC, thereby being public. One bank merely thought it was simply a matter of degree, and that the difference between being private and being public was just a matter of filling out a few more forms and having to beef up your annual reporting. The truth is that there are distinct differences between all of those categories. For most community banks, there is zero benefit to having securities listed on an exchange unless you are going to be fully public and have your securities registered, and it follows that in most cases there is no need to have fully registered securities and therefore be a publicly reporting company unless you want to have multiple thousands of stockholders, operate in scores of locations, hold your annual meetings in a hotel ballroom, and incur multiple hundreds of thousands of dollars in additional costs each year.

Another myth we have run into is the idea that smaller community banks can simply list their stock on an exchange without becoming public (which is true) and that listing the stock on an exchange will create more liquidity (not necessarily true). Liquidity simply means having a ready and willing buyer anytime there is a ready and willing seller. In our opinion, that ready and willing buyer of shareholders’ stock in most community banks ought to be the bank holding company itself, rather than listing it on some exchange. We often find that the community banks listed on an exchange, most of whom only have a few hundred stockholders, wind up discovering that they have no more liquidity by being listed, and perhaps more frustrating is the fact that to the extent the stock trades on the exchange, it trades at a discount to its true value.

Similar to the public versus private discussion, we have heard a number of community bankers say (and maybe it is the result of having talked to the wrong kinds of investment bankers) that the best way to get new capital is to focus on getting it quickly from one institutional investor or private equity source who can simply write a check, rather than trying to offer stock to the masses, and hoping people are interested and buy your stock. We would agree that the total cost involved to simply sell shares to one shareholder is cheaper than doing a public offering of stock to your community or to the masses. However, consider *why* a private equity investor or an institutional investor would want to buy stock of your organization. Here is the truth: they don't care about your Mission Statement. They don't care about the wonderful things you do in your community. They don't care that Mary on the Board just celebrated her 25th year of service. The reason they are buying your shares is they view it as a value purchase where they can profit from the investment in the future. There is certainly nothing wrong with that from the investor's standpoint, but the organization needs to accept that truth with eyes wide open.

So, if you are being encouraged to do a placement of securities to a private equity fund or an institutional investor and there is the hope and promise that they will merely be a passive investor and will do what they can to support the organization, we fundamentally believe that they absolutely will do that. They will do that right up until the point when they no longer do that. As stated above, it is an investment and they want a return, and as long as you provide a good return, maybe there are no issues. But if and when the bank struggles or earnings are down or there are regulatory concerns, if the institutional investor wants to maximize their return, guess what might often be the desired course of action – that's right, a sale of the organization. Not all institutional investors or private equity money is bad, but organizations just need to go in with a healthy dose of truth and understanding of what they are getting themselves into.

Do You Have a Forever Strategy?

Recently in a strategic planning session we had the opportunity to facilitate, the bank chose to create a theme for the planning session. As a side note, that is not always a bad idea because it helps keep the group focused on what the core concerns are, what the underlying mission and values are that are being pursued, and other similar thoughts. In this situation, it was clear what this organization's intent was, because the theme was "Independence: Today, Tomorrow, and Forever." Needless to say, independence, taking steps to maintain independence, and pursuing strategies that promote independence were a central focus of all of the discussions of the Board and management team.

Have you ever thought of your organization that way? Have you ever considered what our "forever strategy" is? For this particular organization, part of the focus was an understanding that they have great strategies in the current environment, they even have good short-term strategies, but are they doing the things necessary that promote independence in perpetuity? You might suspect that led to discussions about organizational relevance, customer succession, investments and use of technology, and related items.

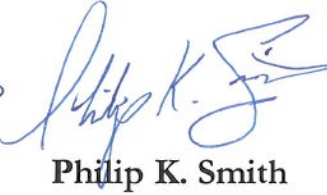
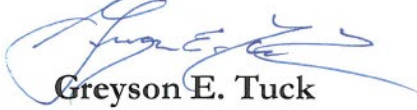
Not all institutions will be able to develop a forever strategy because they are quite honest in recognizing that their organization may not be around forever, and part of that may be from a lack of planning for board, management, ownership, and customer succession. However, for many family-owned banks and closely-held banks, the consideration of the steps that need to be taken as part of a forever strategy may lead to some very interesting, good discussions. Consider whether that is appropriate for your community bank.

Meeting Adjourned

Did you agree with everything in this newsletter? Probably not. That's the beauty of financial institutions as we see them across the country, because different parts of the

country may look at circumstances differently, your asset size may certainly make you look at things differently, even your strategic focus in the current year can change how you look at things in various seasons of the bank's life. So, we hope you always read *The Board Chair Forum Newsletter* with a view toward asking, "Does this apply to my bank?". Of course, we often hear the phrase, "How did you know my bank was dealing with that?" when we visit for planning or other purposes. There certainly is some commonality among banks and we hope you continue to rely on the newsletter and your fellow bankers for guidance along the way.

Until next time,

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