
GERRISH'S MUSINGS

Jeffrey C. Gerrish
Philip K. Smith
Greyson E. Tuck
Gerrish Smith Tuck
Attorneys/Consultants
700 Colonial Road, Suite 200, Memphis, TN 38117

Phone: (901) 767-0900 ♦

♦ Email: jgerrish@gerrish.com ♦ psmith@gerrish.com ♦ gtuck@gerrish.com ♦

Website: www.gerrish.com

October 31, 2025, Volume 548

Dear Subscriber:

Greetings from Florida, Georgia, Missouri, Arkansas, Arizona, Vermont, Iowa, Ohio, Kansas, and Texas!

THE HENRYs?

Over the last several months we have had the opportunity to work with several banks of varying sizes that have wealth management platforms. Some of them are just getting off the ground. Some of them are very well-developed with billions of dollars in assets under management. During one of the meetings, the issue came up of targeting the HENRYs. We must admit, this is a term we had not heard before. The “HENRYs” are defined as High Earning Not Rich Yet individuals. These are typically junior professionals, (lawyers, doctors, etc.), tech entrepreneurs, or others.

We thought that the acronym was pretty cool, and we think this bank had some good ideas with respect to targeting the HENRYs. It admittedly appears to be a difficult task - very similar to simply targeting the younger generation to be a customer of the bank. What is the best way to do that? Multiple avenues exist, but we have not yet heard of a silver bullet. We are all ears if any *Musings* readers want to share.

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.

ACTIVIST INVESTORS

Over the past couple quarters, we have seen a marked increase in activist investor activity. We have read about activist investors at some of the big banks. We have also seen a number of instances of activist investor demands at the community bank level.

What is an activist investor? In our view, it is an investor that has a singular focus of realizing investment value without much thought or care for the local communities, customers, or employees at the bank. In other words, they view ownership of the stock solely as an opportunity to realize profits. We see this as distinct from most community bank shareholders, who seem to have a dual motive of realizing profits and supporting the local communities, customers, and employees at the bank.

Why is it that activist investors have been very active as of late? We believe the answer is three-fold.

First, many activist investors are reaching their investment timelines. Generally speaking, activist investors look to realize a return in no more than 10 years. Many of these activist investors made community bank investments coming out of the Great Recession in 2015 or so, and the 10 year timeline is up.

Second, activist investors often realize value through M&A transactions. Those deals are getting easier, and activity is picking up. The environment is now more conducive to do deals than it has been, and activist investors are looking to strike while the iron is hot.

Third, the stock market has been very kind to publicly traded bank stocks as of late. This has filtered down to the value of all bank financials. For example, as of press time, the KBW Regional Bank Index is up slightly less than 7% over the past six months and up 56% over the last five years. The whole point of activist investing is to buy low and sell high, and the market is creating opportunities.

We hope your community bank does not have to deal with activist investors. If you do, keep in mind their motives. They are often quite different than those of the rank and file community bank shareholder.

EXECUTIVE INCENTIVE PLANS

As we have often written in *Musings*, executive incentive plans are not really a mystery. There are multiple ways executives can be incented in how they might reach whatever their bonus target is. This can be hard metrics, it can be soft issues such as how well their employees like

them, etc. Our only point in *Musings*, as we have made in the past, is whatever the incentive is, the board will get what it incents. The appropriate process is for the board to decide the strategic direction for the bank and then provide the executives an incentive to get there. If the incentive is to, for example, maintain a certain return on equity, then the incentive given to the managers in order to make their bonus is to reduce equity (i.e., pay more dividends, grow the balance sheet so the capital ratio comes down, and the like). You get the idea. The board will get what it incents. The goal is to avoid unintended consequences because whatever the board incents may be counterproductive to the strategic goals of the bank.

COACH THEM UP . . .

In virtually all of our recent planning sessions, the discussion of attracting and retaining talent is on the agenda. Many community banks are fairly quick to hire (if they can retain the talent) but very slow to fire. We were visiting with one Chief Executive Officer recently who had a different philosophy. His philosophy was certainly to vet key employees, especially at the C-suite level, extraordinarily well. If they got on the bank's payroll yet were not performing, then this executive's position was "we will either coach them up or coach them out." He indicated that sometimes as you begin the coaching process, the employee doesn't like it, doesn't fit with the culture, doesn't do anything that is productive, and self-selects out.

We generally believe employee termination is a better result than leaving a toxic employee on the payroll to infect the rest of the organization and adversely impact the culture. Although we are not so much in the category of "quick to hire" (we do believe proper vetting is entirely appropriate), we are in the category of "quick to fire," at least once it is realized that a particular employee simply is not working out for whatever reason. Hence, coach them up or coach them out.

TRAINING FOR CUSTOMER SERVICE

Every time we are with a bank, particularly an officer group, the issue of training comes up. Training is not just technical training by any means. It is often focused on training for customer service.

A big part of training is making sure that all employees understand the bank's products, know how to use them, and actually use them. We were in a community bank directors meeting the other day when one of the outside directors told a story about transacting business at a teller

window at another bank. (It is a separate issue as to why the director was transacting business at another bank.) As the outside director told it, at the next teller window in this other bank, another customer came up to complain to the teller about his debit card at the bank being “locked.” The teller’s response was she “was sorry to hear that” and had also needed to call *her* bank (i.e., not the one she worked at) to get her debit card unlocked on multiple occasions.

In that case, the teller sent a clear message to the customer she was waiting on that even she doesn’t bank at her own bank. We know that is the case for many bank personnel, but telegraphing that to a customer does not seem to be good customer service or customer relations, or even too smart.

INVESTMENTS AS INSURANCE

During one of our recent strategic planning sessions, we had what we thought was a very interesting discussion on the concept of utilizing investments as insurance. This discussion was held with the board and officer group of a bank that has a significant amount of excess capital. The bank has a Tier 1 leverage ratio over 15%. The strategic planning session was very much a discussion on opportunities to allocate the excess capital for the benefit of shareholders.

The discussion throughout the day included identification of multiple opportunities to allocate capital for the benefit of the shareholders. One of the opportunities identified was that of moving excess capital from the bank to the holding company to provide the holding company cash to make investments in different companies that might be seen as a threat to this traditional community bank. It was essentially a discussion on hedging risk by positioning the organization to take advantage of the upside that might be associated with companies that are competitors or could even be seen as potentially displacing a traditional community bank.

In our view, the discussion was great. It certainly makes sense to allocate excess capital in a manner to enhance shareholder value. If that can be done while also providing what is essentially an insurance policy against the loss of relevance, we think that to be of significant benefit to the holding company shareholders.

THE HIGH PERFORMER

We recently facilitated a strategic planning session for a community bank that we classify as a “high performer.” This bank is a little bit larger community bank, with assets in excess of

\$1 billion, that is very profitable, turning an S corp ROA that well exceeds 2%. Asset quality is good, loan demand is strong, and the bank is growing.

However, the bank's performance is not what struck us as notable about the bank. Instead, what really struck us at the planning session was the average age of the management team. It was over 40, but not by much.

This high performing bank has a young management team. The President and CEO is in their early 40's. The oldest one of the executive group is slightly older than 50. Each of the executives has been with the bank for quite a long time. The newbie of the group joined the bank just shy of a decade ago.

In our view, this is a community bank that is doing things right. They are a high performer. They also have the management succession piece figured out. That plan was set in place long ago. Most of the current executive management team has been with the bank about 20 years. Kudos to this high performer! We see this as a blueprint that many other community banks would love to follow.

A WORD ON STRATEGIC PLANNING

As we have reported in *Musings* a number of times previously, the Fall is strategic planning season for us. The various members of our firm have facilitated multiple strategic planning sessions since the last edition of *Musings*. It is a busy time, but also one that really allows us to focus on community bank strategic planning (in addition to all of our other work).

This planning season has strongly reaffirmed to us what strategic planning really is, which is a series of decisions all relating to resource allocation. Although we often refer to them as strategic planning sessions, the meetings that we facilitate are really an in-depth discussion and series of decisions on how a community bank is going to spend its time and money. Of course, the options are endless. Some community banks are looking for deposit growth, while others are looking for loan opportunities. Some are allocating capital to share repurchase transactions, while others are restoring capital ratios or supporting growth.

If you have a strategic planning session coming up in the near term, keep in mind what it is that you are really doing. Simply put, you are having a discussion about how it is that the bank's people are going to spend their time and how it is that the bank's money will be spent over the next approximately 24 to 36 months. With that in mind, maybe a community bank client will hire

us in the not-too-distant future to facilitate a “resource allocation session” rather than a strategic planning session. Of course, we would be happy to do it!

REPURCHASE PROGRAMS

In the course of our daily work, we are often asked by banks how best to allocate capital. Typically, one of the better allocations of capital is a repurchase of the holding company’s own stock. One significant benefit of a voluntary repurchase program by a community bank holding company (as opposed to a forced repurchase, a reverse stock split, or a cashout merger), is that the board of directors can pretty much set the voluntary repurchase price anywhere it wants. Its goal is to set the price where it is beneficial to those shareholders who do not sell (i.e., the board’s obligation to continue to enhance shareholder value for those remain) and does not defraud those who do sell.

Earnings accretion is normally the issue that is reviewed to determine whether a repurchase transaction is beneficial to those who don’t sell. Book value is also an issue. The simple math is that if the repurchase price is above book value, it will be dilutive to book value for those remaining shareholders. If the repurchase price is below book value, the repurchase of shares will be accretive to book value. A transaction with modest book value dilution that is still earnings accretive to the remaining shareholders may still be an excellent transaction. A transaction below book value that is accretive to both earnings per share and book value for the remaining shareholders provides the best of all worlds. We generally run the numbers for community banks on multiple different scenarios, and the “math” then provides support for the board’s strategic decision regarding the repurchase.

CONCLUSION

This second *Musings* of the month comes out on Halloween. Look out for all those kids (and adults) trick-or-treating in your neighborhood. Winter is on the way.

Stay safe. See you in two weeks.

Jeff Gerrish

Philip Smith

Greyson Tuck

Upcoming Webinars and In-Person Presentations:

- December 4, 2025 - Independent Community Bankers of America – (Webinar) “Preparing Today for Community Bank Leadership Tomorrow” (Greyson Tuck, Presenter) Registration: [ICBA Webinar - Preparing Today for Community Bank Leadership Tomorrow](#)
- November 6, 2025 – ClearTrust, LLC (Webinar) “Understanding Restricted Shares: A Practical Guide for Community Banks” (Greyson Tuck, Presenter) Registration: [Understanding Restricted Shares](#)
- January 26-27, 2026 – Barret School of Banking, Community Banking Board Chair Forum at the JW Marriott Marco Island Beach Resort, Marco Island, Florida (Jeff Gerrish, Philip Smith, and Greyson Tuck, Facilitators) Waiting List: [Community Banking Board Chair Forum](#)
- January 29-February 1, 2026 -Southwestern Graduate School of Banking, Assembly for Bank Directors at The Ritz-Carlton O’ahu, Turtle Bay, Hawaii (Jan. 30) (Jeff Gerrish, Presenter) Registration: [SWGSB Assembly for Bank Directors](#)