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# GERRISH'S MUSINGS

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Dear Subscriber:

Greetings from Kentucky, Florida, Alabama, Mississippi, Tennessee, and Hawaii!

## BOARD DIRECTIVES

We recently had an interesting discussion with a community bank client regarding “board directives.” The discussion was with the President of a multi-billion dollar bank as part of our facilitation of their strategic planning process. In the discussion, the President told us that what the board expects of bank management is pretty simple: dividends, a clean examination, and a good reputation within the community.

In our view, we see value in the simplicity of these board directives. Simply put, the board, which controls a good percentage of the shares, views dividends as very important. The board also recognizes that the payment of dividends can be frustrated by regulatory problems, so those need to be avoided. The board also takes pride in ownership of the bank and wants to ensure the bank has a strong reputation within the community.

This straightforward approach makes lots of sense to us. Sometimes it is best not to over think or over complicate things. The board directives for this community bank are the opposite of “board micromanagement.” That’s a good thing.

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## DIRECTORS' FEES

Many community bank boards are wrestling with the issue of electronic/remote (Teams or Zoom or something similar) attendance at board meetings. Some boards allow directors the ability to participate in an unlimited number of board meetings electronically. Others allow only a limited number (e.g. three per year). Others ban the practice altogether.

We recently heard what we thought was an interesting approach to electronic/remote director attendance—electronic/remote attendance reduces director fees. Specifically, this particular bank paid \$1,500 per meeting for in-person attendance and \$1,000 per meeting for electronic/remote attendance.

We thought this was a pretty good approach to address an issue with which many banks seem to be wrestling.

## DISASTER RECOVERY

Over the last couple weeks, many community banks have experienced significant winter weather. Many banks have dealt with unplanned closures due to snow, ice, sleet, and power outages. We have had a couple different discussions with clients regarding strategies to navigate these challenges. All in one way or another relate to the bank's disaster recovery plan.

Every community bank should have a disaster recovery plan. This is essentially the bank's processes and procedures that will be followed to restore critical IT systems and operations after an unplanned event. This can include winter weather, floods, tornadoes, cyber attacks, or other items. The whole purpose of the plan is to ensure data protection, regulatory compliance, and, most importantly, customer trust. The core purpose of the plan is simply to minimize downtime and enable continued operations so customers have uninterrupted access to their cash and other bank services in what is often a time of critical need.

If you have not done so recently, we recommend your bank review its disaster recovery plan. It is one of those items where if you wait to think about it until you need it, you have waited too late.

## DIGITAL ASSETS

For a number of years, there has been much talk about cryptocurrency in the community bank sector of the financial services industry. Of course, cryptocurrency refers to a wide array of financial products, with the most notable typically being thought of as Bitcoin and literally

thousands of what are often referred to as alt-coins. Over the past three or four months, the nomenclature has changed. Recently, these assets have begun being referred to as digital assets.

What are digital assets? Simply put, it is an intangible asset. The IRS provides just as good a definition as any, defining a digital asset as a digital representation of value recorded on a cryptographically secured, distributed ledger (Blockchain) or similar technology.

We expect discussion around digital assets will only increase in our industry. We think it is important community bankers keep updated on what it means. Simply put, it is a reference to an intangible asset that is a digital representation of a store of value. These can include all items from cryptocurrency, stablecoins, NFTs, and digital tokens.

### SHARE OWNERSHIP LIMITATIONS

We were recently working with a community bank client that was concerned about share ownership limitations. This particular holding company has what they often refer to as an unwritten rule on share ownership limitations. Generally speaking, their view is that no shareholder should own more than 10% of the shares outstanding. The idea of the limitation is to ensure share ownership and control do not get concentrated to a point where one or a small group of individuals has actual or effective control over the organization.

Our client asked us whether this unwritten rule was enforceable. In short, the answer is no. Although the organization may view the unwritten rule as enforceable, legally we do not see that it is. There is nothing in the corporate documents or Shareholder Agreement that actually prohibits this level of share ownership.

Our experience is that a small percentage of community bank holding companies look to utilize some type of ownership limitation. In doing so, it is not typically an absolute bar on ownership. Instead, it is typically structured as a cap on voting rights. For example, the ownership limitation is typically structured to indicate that no individual or group acting in concert has the right to vote or control the voting of more than 10% (or some other specified threshold) of the shares outstanding. This type of provision does not explicitly limit share ownership but instead gets to the heart of the issue by limiting the power to vote the shares and concerns related to concentration of control.

## STOCK REPURCHASE PRICING

We recently received an email from a community bank client asking a question related to stock repurchase transactions by their holding company. The email asked for our thoughts as it relates to a board setting a static stock repurchase price. For example, this was a board that had a policy that the holding company repurchases shares at book value. The question was whether we see this with frequency around the country and whether we view this as a best practice.

Our response was that we do see a number of community banks around the country that set the share repurchase price at a static value, typically book value or some percentage of book (some above and some a discount). In our view, that is not the best practice because it fails to take into account institution specific and market considerations.

For example, let's suppose there are two \$300 million community banks, both with \$30 million in equity and 1,000,000 shares outstanding. The book value of each share is \$30. However, one of the banks is turning a 1.45% C Corp ROA and pays \$3.00 per share in dividends. It has pristine asset quality and an engaged and long-term management team. The other is turning a .45% C Corp ROA and pays a \$0.15 per share dividend. It has asset quality and management succession concerns.

If a static book value purchase price is utilized, each of these community bank holding company stocks is seen as having the same value. Clearly one is more valuable than the other.

In our view, the best practice is for the board to periodically (no less than annually) consider the institution and market considerations and determine what the stock is worth to the bank holding company in a repurchase at that time. That practice allows the board to take into account the appropriate corporate considerations to set an appropriate stock repurchase price.

## THIRD-PARTY REPUTATIONAL RISK

Unfortunately, we have been assisting one of our community bank clients in what can only be described as a very frustrating relationship with a third-party vendor. This particular community bank utilizes a third-party vendor for a number of digital banking and similar technology resources. To put it plainly, the third-party vendor has dropped the ball numerous times over the past six or so months. They have done certain things and failed to do certain things that have resulted in product outages, data security events, incorrect displays of information, and the like.

What is frustrating for this client is the fact that the bank can do very little to mitigate the reputational risks created by this service provider. The third-party vendor keeps messing up and

causing problems, but the customers do not differentiate between the bank and the third-party vendor. To the customer, it is the bank that is messing up. Accordingly, when problems occur, the bank is suffering reputational damage.

Unfortunately, we do not see a great way to mitigate third-party reputational risks. Community banks are heavily reliant on third-party vendors to provide technology products and services. When those third-party vendors mess up, the bank's customers do not hold the third-party vendor accountable. They hold the bank accountable. Rightfully so, that is a very frustrating situation for the bank.

### IT'S EXPENSIVE TO BE A PROBLEM BANK

The FDIC maintains a problem bank list, which is a list of all FDIC insured banks that have a 4 or 5 composite rating. The number of banks on the list today is much lower than it has been in the past, but there are still a number of banks around the country that are considered problem banks. We have recently been assisting one of our clients that is unfortunately on this list, and we have been reminded of how expensive it is to be a problem bank.

Banks that are on the problem bank list are almost assuredly subject to a regulatory enforcement action. These go by different names depending on the regulator, but they generally include Consent Orders and Written Agreements. These are formal enforceable agreements that are entered into between the bank and the regulators that spell out specific things the bank is going to do or not do in order to return the bank to safety and soundness. The provisions are typically extensive, as is the cost to comply.

Troubled banks typically spend a good amount of money on outside resources. This includes hiring firms to conduct loan reviews, assist in drafting policies, facilitate strategic planning sessions, and the like. The unfortunate part is that many troubled banks are troubled, in part, because they are either (at best) operating with low levels of profitability or (at worst) losing material amounts of money. Incurring the costs to return the bank to safety and soundness through compliance with the order is just an added set of expenses that makes the overall circumstances more difficult.

## CONCLUSION

Many of you around the country are thawing out from what has been a pretty cold couple weeks. For those impacted, we hope it was only cold and your disaster recovery plan was not put into action.

Stay safe. See you in two weeks.

*Jeff Gerrish*

*Philip Smith*

*Greyson Tuck*

### Upcoming Webinars and In-Person Presentations:

- March 3, 2026 – South Carolina and North Carolina Bankers Association Bank Directors and Executives Summit 2026, Charlotte, North Carolina. (Greyson Tuck, presenting) Registration: [Carolinas Bank Directors and Executives Summit 2026](#)
- March 6-9, 2026 – Independent Community Bankers of America LIVE 2026 Annual Convention at the San Diego Convention Center, San Diego, California. (Jeff Gerrish, Philip Smith, Greyson Tuck and Doc Bodine, presenting) Registration: [ICBA LIVE 2026](#)

## Acquisition Pricing: All Bank Transactions

	All Deals in the U.S. Over the Past 12 Months Where the Target Has:		
	Less than \$250 Million in Total Assets	Between \$250 Million and \$1 Billion in Total Assets	Between \$1 Billion and \$5 Billion in Total Assets
Number of Deals	79	42	40
Average Price/Book (%)	134.23	131.27	139.34
Average Price/Tangible Book (%)	135.62	138.88	152.00
Median Price/Earnings (x)	26.74	16.46	15.28
Average Price/Assets (%)	19.97	13.35	12.86
Average Price/Deposits (%)	26.07	15.78	15.30
Median Premium/Core Deposits (%)	6.10	6.51	5.76

\* Through January 26, 2026

\*\* Source: S&P Global Market Intelligence

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