
GERRISH'S MUSINGS

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Dear Subscriber:

Greetings from Arkansas, Kentucky, Oklahoma, Tennessee, Idaho, Colorado, Washington, and Texas!

BIG BANK COMPETITION

We recently had an interesting discussion at a community bank client meeting regarding big bank competition. This particular community bank is located in a rural area that does not have a significant number of bank branches in the market. Up until about two years ago, there were a couple community banks in town. Our client's community bank competitor was acquired by a "big bank" about two years ago. This town now has essentially one community bank and one "big bank."

We asked our client how the acquisition of their community bank competitor had impacted their business. They (not so) facetiously said the big bank was "great" competition. They essentially said over the past couple years, the big bank had enough time to show their true colors, which they did not describe as customer-friendly. Their comments basically reflected the big bank being unwilling or unable to have any flexibility or local decision making. As they put it, if a loan fit within the very specific defined parameters of the big bank, they would make it. If it didn't, they would not. The community has apparently taken notice, because the discussion with the client

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was, in part, capital-related, because they have seen a tremendous amount of growth and opportunity that has come from this big bank acquisition.

We see this discussion as a good reflection of the strategic advantages of a community bank. If you have a strong community bank competitor in your market, maybe you will get lucky and that community bank will be acquired by a “big bank.” Apparently, in a number of circumstances, big banks do not represent the toughest competition.

THE CELEBRATORY ANNUAL MEETING

We recently had the opportunity to attend a community bank annual meeting that was part shareholder annual meeting and part celebration. This particular annual meeting was celebratory because it was the first annual meeting where bank management had really great news to deliver to the shareholders. This is not because the bank has struggled for a long time. Instead, it is because a group of investors recently acquired the bank and had taken the time to get it well-positioned to make material levels of profitability.

This circumstance is not all that different than a de novo bank. Generally, de novos lose money for two or three years before reaching operating profitability, and then take an even longer time to get to a level of earnings the investors hope to achieve. The acquisition of a troubled community bank where the plan is to materially change the bank and its earnings profile is not significantly different. It takes time to reposition the bank’s balance sheet and grow the loans and assets to improve profitability. This particular management team has done this over about a three-year timeframe, and this is the first annual meeting where they have been able to report what they view as really great results to the shareholders. As they put it, there is certainly pride in what has been accomplished, but the work is not finished yet. It is only getting started.

Kudos to this management team for their first really great annual meeting. Our hope and expectation are that there will be many more to come in the future.

REGULATORY PROHIBITIONS

Every month the regulators publicly release their regulatory enforcement actions. The FDIC recently released theirs that occurred in the month of March. These generally include all of the publicly available regulatory enforcement actions related to banks and institution affiliated parties. It includes Consent Orders, Terminations of Consent Orders, fines, and regulatory prohibitions.

If you are not familiar, regulatory prohibitions are basically the regulator prohibiting an individual from any involvement with an FDIC insured institution. The regulators absolutely have the ability to bar individuals from participation with an FDIC insured institution, either as an employee, director, or shareholder.

Why would the regulators ban an individual from participation in an FDIC insured institution? It is because the individual has taken some action that is illegal or has jeopardized the safety and soundness of a bank. This might include a material violation of law or regulation, theft, or some similar bad action.

Regulatory prohibitions, which are also referred to as an Order of Removal and Prohibition, are not common. But, it is one of the tools in the regulators' toolbox that they can use to respond to an individual that is acting in a manner which the regulators do not approve.

NEGOTIATION FATIGUE

We are currently assisting one of our community bank clients in the negotiation of a lease for a new branch location. The counterparty to the negotiation is a large corporation that owns and leases real estate all over the United States. The negotiation of the branch lease has taken much longer than anyone on our side would like. The other side has been through multiple different lawyers and takes what we believe to be an extremely long time to make changes and provide a turn of the agreement. Simply put, the negotiations have drug on forever.

Our client is beginning to experience negotiation fatigue. This is something that is not unique to this client. Having assisted clients through a significant number of negotiations, whether it be purchase and sale contracts, merger and acquisition agreements, lease negotiations, or other contracts, we see this with a good amount of frequency. It is not all that uncommon for someone involved in this type of negotiation to get frustrated with the time and money spent on trying to get the lease into final form.

When we see a client beginning to experience negotiation fatigue, our advice is to really focus on what matters. If there are significant issues of importance, those need to be resolved. But, we do not see much value in negotiating trivial matters. We think everyone involved is best served to quickly reach agreement on trivial matters and move on. It's not worth a good deal falling apart over items that are not of real importance.

CONDITIONS IMPOSED IN WRITING

We have recently been assisting one of our clients in navigating a “condition imposed in writing.” For those *Musings* readers who are not familiar, a condition imposed in writing comes from the regulators. It is basically a non-standard condition that accompanies some type of regulatory approval. For example, a condition imposed in writing may require a bank to maintain a certain capital ratio for a specific amount of time following a branch approval.

We have seen many conditions imposed in writing. They are basically a carrot and stick. The carrot is the approval the bank wants. The condition imposed in writing is the stick the regulators want, to ensure the bank does what the regulators want the bank to do, or refrains from doing what the regulators do not want the bank to do, over a specific time period.

Compliance with a condition imposed in writing is important. A failure to comply with the condition is essentially akin to the failure to comply with an applicable regulation. Of course, that is problematic from a number of different fronts.

If your bank is ever presented with the opportunity to agree to a condition imposed in writing, be sure you understand what it means. The regulators certainly expect the bank to understand and comply with the condition, unless the regulators substantively determine to terminate the condition, which they are always free to do upon application.

SOURCED LOANS

We recently had a discussion with a client regarding sourced loans. What are sourced loans? With our client, those were generally discussed as loans that came into the bank from any source other than the efforts of the bank’s loan officers. These are basically loan participations and purchased loans.

This particular discussion of sourced loans was had because this bank has a lower-than-average loan-to-deposit ratio, and is looking to increase the loan portfolio. This discussion included a look at what the regulators would expect in terms of a policy for sourced loans. Our recommendation was for the bank’s loan policy to include a specific section on sourced loans, which would basically address both loan participations and purchased whole loans. Under either scenario, our recommendation was to require the bank to follow the same loan guidance and underwriting procedures as would be followed for a similar loan generated by the bank’s loan officers and to impose specific capital and concentration limitations on these types of loans.

Sourced loans are not all that uncommon in community banks. Most banks do not have a majority of their portfolio in sourced loans, but many banks do have some portion of their portfolio dedicated to these assets. If you have sourced loans within your portfolio, we recommend you ensure that your loan policy addresses both the underwriting and concentration limitations for these assets.

CONCLUSION

The rest of this week will see Good Friday and Easter. We hope each of you enjoys time celebrating with your family and appreciating blessings received. See you in two weeks.

Jeff Gerrish

Philip Smith

Greyson Tuck

Upcoming Webinars and In-Person Presentations:

- April 1, 2026 – Independent Community Bankers of America, ICBA Credit Analyst Institute, Livestream. (Doc Bodine presenting) Registration: [ICBA Credit Analyst Institute](#)
- April 7, 2026 – Community Bankers Association of Illinois, Enhancing Stakeholder Value Conference, Springfield, Illinois. (Philip Smith and Greyson Tuck presenting) Registration: [CBA of Illinois Directors Seminar Enhancing Stakeholder Value](#)
- April 14-16, 2026 – Virginia Association of Community Banks, Bank Directors’ Symposia, M&A Strategies in the Current Environment, Columbia, Maryland and Richmond and Blacksburg, Virginia. (Greyson Tuck presenting) Registration: [Bank Directors' Symposium - Virginia Bankers Association](#)
- April 23, 2026 – The Paul W. Barret School of Banking, Barret Executive Leadership Academy, Memphis, Tennessee. (Doc Bodine presenting) Registration: [Barret Executive Leadership Academy](#)
- April 27-29, 2026 - Sawyers & Jacobs Bank Tech Summit, Memphis, Tennessee – “Changing the Way Your Bank Thinks About Technology” (April 28, Philip Smith presenting) Registration: [Bank Tech Summit](#)
- May 18, 2026 – The Paul W. Barret School of Banking, Bank Management: A How-To Guide, Memphis, Tennessee. (Doc Bodine presenting) Registration: [Barret School of Banking Graduate School](#)
- May 19-21, 2026 – Indiana Bankers Association 2026 Mega Conference at The Westin Indianapolis – “What is the Next Chapter for Your Bank?” (May 20, Philip Smith presenting). Registration: [Mega Conference](#)

- May 21, 2026 – The Paul W. Barret School of Banking, The Business of Banking, Memphis, Tennessee (Greyson Tuck presenting) Registration: [Barret School of Banking Graduate School](#)

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	70	37	38
Average Price/Book (%)	132.44	130.49	139.89
Average Price/Tangible Book (%)	133.40	136.93	153.45
Median Price/Earnings (x)	23.52	16.34	15.32
Average Price/Assets (%)	17.18	13.23	12.91
Average Price/Deposits (%)	19.87	15.46	15.30
Median Premium/Core Deposits (%)	6.39	5.44	5.77

* Through March 26, 2026

** Source: S&P Global Market Intelligence

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