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# GERRISH'S MUSINGS

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April 30, 2026, Volume 560

Dear Subscriber:

Greetings from Arkansas, Kansas, North Dakota, Pennsylvania, Tennessee, Texas, and Virginia!

## THE REGULATORY RELIEF KEEPS COMING

Our last edition of *Musings* highlighted a couple areas where the bank regulatory agencies provided specific regulatory relief for community banks. We are happy to report that the regulatory relief keeps coming. Over the past couple weeks, the regulators reduced the Community Bank Leverage Ratio requirement from 9% to 8%. Simply put, this means that if a community bank has opted into the CBLR framework and has an 8% or greater Tier 1 Leverage Ratio, the community bank will be deemed Well Capitalized for regulatory purposes. Put another way, it means that as long as a community bank has an 8% or greater Tier 1 Leverage Ratio, the regulators will not look at any Risk-Based Capital Ratios to determine whether the community bank is Well Capitalized. In addition to lowering the Tier 1 Leverage Ratio requirement to 8%, the changes also provide relief in terms of "grace periods" by expanding from two quarters to four quarters the time in which the bank is allowed to be out of compliance with the 8% minimum Tier 1 Leverage Ratio.

This regulatory relief is meaningful. There are a number of community banks that operate with Tier 1 Leverage Ratios between 8% and 9%. Those banks now have the option to opt into the CBLR framework to be deemed Well Capitalized. The benefit to the community bank is the

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community bank is no longer required to calculate and report Risk-Based Capital Ratios, so whoever is doing that in the bank can do something else instead. As importantly, we think it is also notable that the regulators are specifically looking to loosen rather than tighten regulatory standards for community banks to be Well Capitalized.

### THIRD-PARTY COMPLIANCE RESPONSIBILITY

A couple of different times over the past couple weeks, we have had clients approach us with similar issues related to regulatory compliance. In each of these issues, the bank was considering engaging a third party to provide some type of product or service. This is not an uncommon situation for community banks, particularly as it relates to mortgage. Oftentimes, a community bank will “outsource” mortgage activities with a third-party referral arrangement.

In each of these circumstances, our client provided us with paperwork where the third party said they were solely responsible for regulatory compliance. In other words, one of the selling points of the third party was that they were responsible for compliance and the bank was not. Our answer was very straightforward—we disagree.

Our experience is that the regulators do not give a pass on regulatory compliance to a bank simply because the activity happens to be outsourced to a third party. Instead, if it happens within the bank, the regulators take the view that the bank is responsible for it. If a bank is utilizing a third party for any product or service, the bank has a responsibility to oversee compliance for that product or service. If there is a problem, the bank indicating that the third party is really the one responsible is an answer that, in our experience, is not going to fly.

### SOCIAL MEDIA CONSIDERATIONS

Many of the community bank strategic planning sessions we facilitate involve discussion regarding social media. Generally speaking, community banks are looking to be active on social media to maintain customer engagement and brand awareness. We recently experienced social media from a little different perspective when a client asked us to review their developed First Amendment Auditor Procedures. Admittedly, that is not something that we are asked to do with frequency.

What are First Amendment Auditor Procedures? Simply put, they are the procedures bank employees are to follow if individuals are on bank property and are looking to film or record with a phone or other device. This would include things like "social media influencers" that may be

looking to do something specific on the bank property in order to "go viral" or otherwise obtain online notoriety.

The most important aspect of the First Amendment Auditor Procedures is to maintain customer confidentiality. The procedures recognize the difference between public spaces and private spaces and the ability of individuals to exercise their First Amendment right. However, the procedures seek to balance that right against the obligation of the bank to maintain customer privacy.

Some might say it is a strange world we live in these days. However, these are the types of things that banks must figure out how to address.

### RESPECTFUL DISAGREEMENT

We recently had a discussion with a client that is undergoing a less-than-ideal examination. In this instance, the examiner in charge has taken a couple personal swipes at certain bank employees. They have also made certain comments that are related to the bank's asset quality and operations that the management team simply does not see as accurate.

During a recent call with bank management, we were asked our advice on how the bank should approach the situation. Our advice was to recognize that there is absolutely nothing wrong with disagreeing with the examiners, provided it is done respectfully. Disagreeing with the examiners respectfully does not mean getting down into the "mud" with them and slinging personal attacks or presenting the bank's arguments in a confrontational manner.

We have assisted several banks through difficult examinations. We have seen some bankers do very well with respectfully disagreeing with the regulators. We have seen others where classifying their actions as "losing their cool" is an understatement. If you find your bank in a disagreement with the regulators during an examination, our encouragement is to maintain civil discourse. Respectfully disagreeing with the regulators is no problem at all. Doing so in a way that loses respect typically does more harm than good.

### M&A UPDATE

At the beginning of the year, we mused that the banking industry would see an increase in M&A activity in 2026 and 2027. Our logic was based on the belief that the combination of reduced interest rates, increased net interest margins, relaxed regulation, and an administration that is open

to bank M&A activity would all combine for a meaningful number of M&A deals. Based on the first quarter numbers, we are not certain we exactly nailed it.

If you look at quarter-by-quarter activity, the level of activity is actually down in the first quarter of 2026. Why is it that we are seeing fewer deals than we (and others) expected? Our view is that there are a couple factors that are coming together to impede rather than promote deal activity.

At the beginning of the year, the U.S. invading Iran was not on our bingo card. While we have not seen any banks that specifically cite that as a reason not to pursue M&A, we see it as a reason that a number of banks have taken a cautious approach to the current environment. Also, a lot of banks that were slated to be sold were likely sold last year. By definition, a bank can only be sold once. So, last year's sellers necessarily took away from this year's sellers. Finally, we generally hear a more optimistic tone from community bankers. The combination of margin improvement, regulatory relief, and consistent asset quality has many banks feeling good about their current position. Those factors are leading banks to see independence as preferable to M&A.

We are not ready to declare we were totally wrong on the M&A front yet, but the environment has produced a couple less deals than was originally anticipated. It will be interesting to see over the next three to six months whether this level of activity remains or changes, either up or down.

## STOCK AWARDS

We were recently asked to assist a client in drafting a Stock Award Agreement for a new executive. This award was part of the compensation package that was utilized to bring this younger individual into bank management. The award is pretty straightforward - the individual is going to receive a certain number of shares of holding company stock over a certain number of years.

In talking through the award, our client asked us two questions. First, could they condition the award on certain things, such as a right of first refusal in the event of an attempted transfer of the shares? Second, what are the tax effects of this type of compensation?

As it relates to the first question, the holding company and bank can condition the provision of the award on any terms or conditions it sees as appropriate. The award agreement can be drafted to include a prohibition on transfer, right of first refusal, or similar terms. As it relates to taxation, the value of the shares awarded is taxed as compensation just the same as a cash payment.

These types of questions are not uncommon. If a holding company and bank are going to utilize equity to attract an executive, they typically look to avoid a situation where the individual just takes it free and clear of any and all restrictions. Instead, the idea is typically to restrict the award to promote long-term engagement by the executive and protection for the holding company and bank against unintended consequences.

## CONCLUSION

Many community bankers around the country currently have an optimistic view of the industry and current environment. Based on our travels, we see good reasons for that current take. We hope the "good times continue!" See you in two weeks.

*Jeff Gerrish*

*Philip Smith*

*Greyson Tuck*

### Upcoming Webinars and In-Person Presentations:

- May 12, 2026 – Independent Community Bankers of America – “Liquidity Strategies for Illiquid Community Bank Stocks” (Greyson Tuck presenting) Registration: [ICBA Liquidity Strategies](#)
- 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](#)
- May 26 – June 5, 2026 – Southwestern Graduate School of Banking Foundation, Dallas, Texas – “Enhancing Shareholder Value With or Without a Sale” (June 1-3, Philip K. Smith, Instructor) Registration: [SWGSB](#)

# 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	39	36
Average Price/Book (%)	138.26	125.73	138.79
Average Price/Tangible Book (%)	139.50	133.81	152.42
Median Price/Earnings (x)	21.01	16.15	15.26
Average Price/Assets (%)	18.13	13.55	12.84
Average Price/Deposits (%)	23.48	15.38	15.17
Median Premium/Core Deposits (%)	7.34	6.48	5.44

\* Through April 23, 2026

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

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