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

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Dear Subscriber:

Greetings from Indiana, Iowa, Tennessee, West Virginia, Minnesota, Wisconsin, Iowa, and Nebraska!

CREDIT OVERSIGHT

You have likely heard the old adage that bankers never make a bad loan. They make a good loan that goes bad. Of course, the whole point of the credit underwriting process is to minimize or completely eliminate good loans that go bad.

We recently had a somewhat humorous discussion with a long-time community banker about credit quality. During the discussion, we relayed our view that Chief Credit Officers really ought to be professional worriers. While the comment was intended to be somewhat humorous, the truth underlying the comment is not.

A fundamental tenet of risk management is having appropriate checks and balances. A strong credit culture and Chief Credit Officer is fundamental to the appropriate checks and balances in a community bank to manage credit risk. In our view, there ought to be a healthy balance between the Lenders advocating for a credit and a Chief Credit Officer, Loan Committee, or similar counterbalance having a healthy dose of skepticism about the extension of credit. When a bank has a strong check and balance on each side, it is well positioned to ensure that the cash that it sells can ultimately be repaid.

Although we have had a very strong credit cycle for a number of years, it is important to keep this fundamental risk management at the forefront.

1099 REPORTING REQUIREMENTS

We have given a decent amount of ink in Musings recently to stock repurchase programs. We are currently assisting a number of community bank holding companies in utilizing capital to the repurchase of shares. One of the questions we often receive related to a stock repurchase transaction is whether the selling shareholder should be issued a 1099. A follow-up question is, if so, which one? This same question often comes up in the context of an M&A transaction when we are representing a purchaser that acquires another bank or holding company for cash.

In our view, the easier of the two questions to answer is the first. We do believe selling shareholders should be provided a 1099 under the circumstances. Which 1099 is correct is a little more convoluted. It really depends on the facts and circumstances, but most of the share repurchase transactions do not fit neatly into the box of what might be considered the usual suspects of a 1099. It is not technically a dividend because it is a share repurchase transaction. It is not technically a broker transaction because these stock repurchase programs are usually one-off programs, and are not part of an ongoing stock repurchase structure.

Our typical advice is to issue a 1099 miscellaneous. That really is a catch-all for any transaction where a seller is provided a value of $600 or more. We recommend erring on the side of caution and issuing the 1099 miscellaneous as opposed to not providing anything. It is simply a matter of risk, and we see no benefit to the holding company or bank in failing to issue a 1099 when a selling shareholder is provided cash for the sale of their shares.

ANNUAL MEETINGS

We are currently in the midst of annual meeting season. Most holding companies hold their annual meeting sometime during the second quarter. For many holding companies, the annual meeting is very lightly attended. Some holding companies have virtually no shareholder attendance at all.

We recently were asked whether it is a requirement to hold an annual meeting. In short, the answer is yes. Regardless of the attendance, the applicable corporate laws envision and require all companies to hold an annual meeting.

Going completely without the annual meeting is not really an option. However, there is one alternative. Most states allow action to be taken via unanimous written consent rather than at an actual shareholder meeting. So, if you can get every one of your shareholders to consent in writing to the same corporate matters that would be addressed at the annual meeting, you can actually forego the annual meeting.

Regardless of attendance, it is necessary to hold an annual meeting or to obtain unanimous consent in lieu of the annual meeting. It is not an acceptable practice simply to skip the annual meeting because the shareholders do not participate in person.

RESALE OF RESTRICTED SECURITIES

We recently received an email from a client asking about the resale of restricted securities. The question related to the sale of shares where there was a restrictive legend on the back. That restrictive legend is a notation on the back of a stock certificate that indicates the shares to be restricted securities that are subject to certain resale restrictions. The same restrictions on resale are technically applicable to control securities as well, which are securities held by an officer, director, or greater than 10% shareholder.

Our client's question was whether the shares could be sold in light of the restrictive legend. The answer: it depends.

The resale of restricted and control securities is a matter of securities law. There are a number of different considerations. The ultimate issue is one of the seller not being considered an underwriter for securities purposes. In other words, the laws are written to avoid straw purchasers purchasing shares from a bank holding company in an unregistered offering and then turning right around and selling the shares.

Many shares of community bank holding company stock are restricted or control securities. If there is a request to transfer those securities, be sure that you fully understand what the restricted or control security designation means. It is important to make sure to take a close look at whether the transfer can occur, and any specific considerations that need to be addressed.

MUTUAL BRANCH ACQUISITIONS

Every now and then we get a question from a client related to the acquisition of a mutual bank. The question we typically receive is whether it is possible for a stock bank to acquire a mutual bank. Our answer is that it is possible in very limited circumstances. Simply put, the regulators typically only allow a stock bank to acquire a mutual bank if the acquisition is to avoid a failure of the mutual bank. The regulators do not favor mutual banks selling themselves to stock banks for the benefit of the mutual bank members.

We recently received a question along the same vein, which is whether it is possible for a stock bank to acquire a mutual bank's branches. We believe the answer is yes, and that it might be a little bit easier to convince the regulators to approve than a whole bank acquisition.

When might the regulators approve a mutual bank branch acquisition? We think they would be open to the possibility when such a transaction would help a struggling mutual bank. If a mutual bank were to sell branches and reduce the size of its balance sheet to improve its capital ratios and profitability, we think the regulators should be comfortable with that transaction because it both strengthens the mutual institution and preserves its mutuality. In our view, that is a win-win for the mutual, and a transaction the regulators ought to view favorably.

HOLDING COMPANY DEBT STRUCTURE

We recently had a discussion with one of our clients regarding the appropriate holding company debt structure. This particular bank is looking for some capital to support balance sheet growth. They have decided they want to leverage the holding company. They are wrestling with the best way to structure the debt. Generally speaking, there are three different ways to structure holding company debt: a line of credit, term debt, or subordinated debentures.

As the name implies, a line of credit is ready access to capital for a holding company. It provides the holding company with the opportunity to draw down on the line as needed to support capital. Many draws are structured as two years interest-only followed by a term out, typically of five to ten years.

Term debt is more of a traditional loan where principal and interest payments begin immediately. It is typically termed out for five to ten years, with an amortization of typically no more than 20 years.

Subordinated debt is a 10-year interest-only debt. The interest rate is fixed for five years and then floats for five years. Interest payments are typically made quarterly or semi-annually, and the principal is due at maturity.

There are numerous considerations that go into determining the right debt structure. The determination includes the reason for the debt, financial projections, capital comfort, alternative uses of capital, and the like.

If you are thinking about taking down holding company debt, make sure that you are considering the appropriate structure. Based on the circumstances, it may be that one structure is clearly preferable to the others.

CORPORATE DIRECTORS

One of our clients recently emailed us to ask about corporate directorships. The vast majority of questions in this regard are related to considerations of individuals joining a holding company or bank board of directors. This question was the other side of the coin. The inquiry was whether an individual that is a bank or holding company director or executive officer is allowed to serve as a director for another corporate entity.

In summary, there is no regulatory prohibition against directors or executive officers serving as directors of another corporate entity. We have seen circumstances where bank or holding company directors or executive officers serve as directors of for-profit corporations, nonprofits, governmental entities, and the like. It is all generally permissible in terms of the actual director positions.

Our advice to our client was not to focus on whether the director could take another corporate directorship. Instead, it was to look at the regulatory considerations that would come into play if that were to happen. If the bank has any type of relationship with the other corporate entity, a director or executive officer joining their board could bring Regulation O, Regulation W, and similar regulatory considerations into play. It is important not to overlook those regulatory considerations.

CONCLUSION

We are past Memorial Day and summer has unofficially started. If your kids or grandkids are out of school, we hope they find time away from their devices and outside enjoying the sun and warmth. We also hope many of you are either enjoying or looking forward to a summer vacation.

See you in two weeks.

Jeff Gerrish *Philip Smith* *Greyson Tuck*

Upcoming Webinars and In-Person Presentations:

- 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

- June 25, 2026 – Independent Community Bankers of America Webinar, "Remaining Independent in an M&A Environment" (Philip K. Smith presenting) Registration: Remaining Independent

- July 20-24, 2026 – Graduate School of Banking at Colorado, "Enhancing Shareholder Value" (Greyson E. Tuck, Instructor) Registration: GSB Colorado

- July 27 & 28, 2026 – Graduate School of Banking-Madison, Wisconsin, "Enhancing Shareholder Value With or Without Sale" (Philip K. Smith, Instructor) Registration: GSB Wisconsin

- August 2-6, 2026 – Independent Community Bankers of America, "Commercial Lending Institute" (Cliston V. "Doc" Bodine, III presenting) Registration: ICBA Commercial Lending

- August 19, 2026 – Independent Community Bankers of America, "ICBA Credit Analyst Institute" (Cliston V. "Doc" Bodine, III presenting) Registration: ICBA Credit Analyst

- August 24-28, 2026 – Pacific Coast Banking School, "The Board, Shareholders and M&A: Legal and Practical Concerns" (Philip K. Smith, Instructor) Registration: PCBS

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	40	39
Average Price/Book (%)	149.00	123.92	143.94
Average Price/Tangible Book (%)	150.79	130.01	154.23
Median Price/Earnings (x)	23.18	14.20	14.83
Average Price/Assets (%)	19.56	14.50	13.64
Average Price/Deposits (%)	22.69	15.83	16.09
Median Premium/Core Deposits (%)	8.33	5.35	5.87

* Through May 28, 2026
** Source: S&P Global Market Intelligence