GERRISH'S MUSINGS

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Dear Subscriber:

Greetings from Colorado, Florida, Indiana, Nebraska, Tennessee, West Virginia, and Wyoming!

SHARE REPURCHASE STRUCTURES

We have given quite a bit of ink in *Musings* to share repurchase transactions. Of course, this is relevant to many community bank holding companies because the holding company oftentimes serves as the primary (or only) source of liquidity for the holding company's common stock. The most typical transaction structure is very straightforward – the holding company makes a cash payment to the shareholder, and ownership of all the selling shareholders' shares is transferred back to the holding company. It is a clean break, and there are generally no continuing obligations one way or the other from either party.

Although a cash payment and clean break is most common, it is not the only way that a share repurchase transaction can be structured. There are actually many different forms that the deal can take, and sometimes a share repurchase transaction takes on a life of its own.

There are two primary considerations in structuring a share repurchase transaction. The first is what percentage of the selling shareholders' shares are to be sold. It is not always 100%, although purchasing a minority amount of the selling shares could present less than favorable tax consequences.

The second is the schedule on which the shareholder will be paid. It is not always full payment at the time of closing. Sometimes there is a portion of the purchase price that is paid at closing, with the remainder being paid over some period of years with appropriate interest, which is seller financing.

If you are thinking about a share repurchase transaction, consider the transaction structure that makes the most sense given the circumstances. This is particularly pertinent if it is a "large purchase" that may not cleanly fit into the box of a cash payment and related transfer of ownership of all shares. There are different alternatives that are available, and the ultimate structure is determined by negotiation between the parties.

A WORD ON STABLECOINS

We recently received an email from a client asking for our view on stablecoins. Our client asked whether we thought stablecoins might have any impact on community banking. If so, in what time frame?

Our view is that stablecoins are an emerging technology that is going to influence all aspects of financial services, including community banking. We do not see it wise to simply dismiss stablecoins as a fad. We do not believe stablecoins are going to be a mainstay as transaction consideration tomorrow, but we do expect stablecoins will really come into the life of community banks within the next 24 to 36 months.

If you are not familiar, stablecoins are digital assets that are basically derivative financial instruments. They are a digital representation of value that is tied to an actual store of value, typically a fiat currency—most notably the U.S. dollar. Stablecoins are not all that different from debits and credits on accounting journal entries. The main differences are the speed at which stablecoins can be transmitted and the cost of transmission. Simply put, they are a representation of value that can be quickly and cheaply transmitted over a blockchain.

We believe every community bank director and executive officer should have a fundamental understanding of stablecoins. We also think it is important to keep an eye on what is happening out there with this emerging technology. We have written previously in *Musings* about disintermediation, and the risk is real. We do not think community banks are wise to simply view it as a fad that might be a passing trend.

THE LEAST COST TEST

We recently had an interesting discussion regarding the FDIC's least cost test requirement. This has not come up much lately. We hope that continues to be the case.

For the uninitiated, the least cost test is a statutory requirement the FDIC must follow as it relates to the resolution of failed banks. When liquidating a failed bank, the FDIC is required by law to structure the liquidation that results in the least cost (i.e., the least amount of loss) to the Deposit Insurance Fund. This, of course, is good for all banks that have not failed because it ensures that the failed bank takes as little as possible from the Deposit Insurance Fund.

Many of you that have been around banking for a number of years may remember Open Bank Assistance. This was formerly an FDIC practice that would allow one bank to take over another bank with FDIC assistance without the target bank actually failing. Open Bank Assistance is no longer, due to the least cost test. The FDIC takes the view that the least cost test requires the bank to be sold and to go through a public marketing process to ensure the resolution is at the least cost to the Deposit Insurance Fund.

One interesting note about Open Bank Assistance is that our firm was the last to do an open bank assistance transaction, as far as we know. That was decades ago.

THE UNWANTED ASSET

We are currently working with several different clients to address issues related to unwanted assets. Although you might think we are talking about problem loans or other real estate, we are not. We are actually talking about shareholders that no longer want to own holding company shares. The problem with some unwanted assets is that there is nowhere to offload them.

Liquidity is a foundational tenant of enhancing stakeholder value. In this regard, liquidity is the ability of the shareholder to convert their shares to cash at a fair price in a timely manner. As previously noted, many holding companies serve as the primary source of liquidity. Things can become problematic if a shareholder wants liquidity but cannot get it.

Shareholders that own shares they no longer want to own typically look to the holding company to repurchase them. Most holding companies do, but that is not always the case. Sometimes the circumstances are such that the holding company is simply unable to facilitate a demand for liquidity. It may be that the holding company does not have an appropriate amount of capital or otherwise cannot get its hands on any more cash. It might also be that the size of the repurchase request is such that it is simply too large for the holding company to satisfactorily address.

Situations where a shareholder owns an unwanted asset are typically challenging. At best, they are frustrating. At worst, they jeopardize the ability of the holding company to maintain ongoing independence. This is the reason that we harp on liquidity and the importance of ensuring the shareholders have an avenue to convert their shares to cash should they want to do so.

DO NOT USURP A CORPORATE OPPORTUNITY

Do not usurp a corporate opportunity. What does it mean to usurp a corporate opportunity? Generally speaking, it means an individual putting his or her own interest ahead of those of the corporation and engaging in a transaction personally in front of the corporation.

We recently had a client ask a question related to usurping a corporate opportunity. It dealt with a share repurchase transaction—specifically, whether a director could purchase shares from a selling shareholder instead of the holding company repurchasing such shares. The repurchase was going to happen at the same price, so the selling shareholder would get the same amount of money.

Our advice to the director was not to usurp the corporate opportunity. A share repurchase transaction benefits all holding company shareholders. This director stepping in front of the holding company and repurchasing the shares individually benefits only the director. That is the essence of usurping a corporate opportunity, and it is generally viewed as a violation of the director's fiduciary duty.

If your holding company or bank is presented with a corporate opportunity, the holding company and bank get first crack at the opportunity. Insiders should not attempt to step in front of the organization as it relates to the transaction. That is problematic and should be avoided.

BENEFIT PLAN TERMINATIONS

We are currently working with a couple of different community banks that are selling to larger community banks. One of the questions that always comes up in this type of transaction is the treatment of the target bank benefit plans. Essentially, the issue is what happens to the target's 401(k) plan, insurance coverage, change in control agreements, and any other employee benefit plans.

Every transaction is subject to its individual negotiation. However, our experience is that almost universally an acquirer requires a target's benefit plans to be terminated immediately prior to the effective time of the merger. The acquirer does not oftentimes step into the shoes of the target bank as it relates to its 401(k), insurance coverage, and other employee benefits. Instead, all these plans and benefits are terminated immediately prior to the effective time of the merger, and the employees that remain with the acquiring bank after the merger become participants in the acquiring bank's benefit plans. This is often a much cleaner and simpler than trying to either merge the existing benefit plans together or run multiple different benefit plans that are similar but technically distinct.

RELOCALIZING OWNERSHIP

We recently had an interesting discussion with a client regarding relocalizing ownership. This discussion was interesting because it highlighted the difference between a community-owned bank and a bank that had a small number of shareholders.

The discussion was emblematic of what many community banks around the country are seeing. Five or so decades ago, many community banks were actually community-owned banks. The shareholders lived and worked in the community where the bank operated, and all the owners touched, felt, and saw the bank on an almost daily basis.

Today, many community banks are no longer community-owned banks. Instead, they are banks that have a small number of shareholders that are oftentimes dispersed all over the country. This is because the original shareholders have died and the heirs have moved off and live all over the country.

There is a meaningful distinction between community-owned banks and banks that have a small number of shareholders. Many community banks are seeing this. Some community banks are talking about the concept of "relocalizing ownership" to bring ownership of the shares back to the individuals where the community bank operates. There are several viable strategies that can facilitate that type of transaction.

WHERE THE ACTION HAPPENS

We recently had a discussion with a community bank client regarding corporate governance and related structural issues. The discussion really highlighted where the action happens, which is at the bank level, not the holding company level.

From a structural perspective, a holding company and bank technically have a separate board of directors. The holding company board is responsible for oversight of the holding company's corporate activities. The bank board is responsible for oversight of the bank's corporate activities.

The action happens at the bank level. That is where all the real business is conducted. Many holding companies do not really do much in terms of corporate activities. The holding company board is typically responsible for the declaration of shareholder dividends or distributions, ensuring appropriate principal and interest payments on holding company debt, and electing bank directors. Beyond that, the action really happens at the bank level because that is where all the business activities typically occur.

CONCLUSION

America celebrates its 250th birthday Saturday. We hope you enjoy fireworks and time with friends and family celebrating this milestone birthday. We are glad to be a part of it and appreciate the freedom and opportunities this great nation provides.

See you in two weeks.

Jeff Gerrish *Philip Smith* *Greyson Tuck*

Upcoming Webinars and In-Person Presentations:

- July 15, 2026 – Indiana Bankers Association, Leadership Conference, "Modern Financial Services Simplified" (Greyson E. Tuck presenting) Registration: IBA Leadership Conference
- 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

- September 10 & 11, 2026 – Independent Community Bankers of America, "Enhancing Organizational Value Conference" (Philip K. Smith and Greyson E. Tuck presenting) Registration: Enhancing Organizational Value Conference

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	67	48	36
Average Price/Book (%)	152.70	124.79	144.76
Average Price/Tangible Book (%)	154.72	130.47	154.43
Median Price/Earnings (x)	23.37	15.81	15.74
Average Price/Assets (%)	20.10	13.22	13.33
Average Price/Deposits (%)	23.98	15.33	14.10
Median Premium/Core Deposits (%)	8.89	5.52	6.03

* Through June 25, 2026
** Source: S&P Global Market Intelligence

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